



Unaudited Quarterly Financial Report

September 30, 2016

Goldman Sachs International (unlimited company)

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Management Report

Introduction

Goldman Sachs International (GSI or the company) provides a wide range of financial services to clients located worldwide. The company also operates a number of branches across Europe, the Middle East and Africa (EMEA) to provide financial services to clients in those regions.

The company's primary regulators are the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).

The company's ultimate parent undertaking and controlling entity is The Goldman Sachs Group, Inc. (Group Inc.). Group Inc. is a bank holding company and a financial holding company regulated by the Board of Governors of the Federal Reserve System (Federal Reserve Board). Group Inc., together with its consolidated subsidiaries, form "GS Group" or "the group". GS Group is a leading global investment banking, securities and investment management firm that provides a wide range of financial services to a substantial and diversified client base that includes corporations, financial institutions, governments and individuals. GS Group has a presence in EMEA through a number of subsidiaries, including GSI.

GSI seeks to be the advisor of choice for its clients and a leading participant in global financial markets. As part of GS Group, GSI also enters into transactions with affiliates in the normal course of business as part of its market-making activities and general operations. GSI, consistent with GS Group, reports its activities in four business segments: Investment Banking; Institutional Client Services; Investing & Lending; and Investment Management.

References to "the financial statements" are to the unaudited financial statements as presented in Part II of this financial report. All references to September 2016, June 2016 and September 2015 refer to the periods ended, or the dates, as the context requires, September 30, 2016, June 30, 2016 and September 30, 2015, respectively. All references to December 2015 refer to the date December 31, 2015. All references to "the 2015 Annual Report" are to the company's Annual Report for the year ended December 31, 2015.

Unless otherwise stated, all amounts in this financial report are prepared in accordance with United Kingdom Generally Accepted Accounting Practices (U.K. GAAP).

Executive Overview

Profit and Loss Account

Three Months Ended September 2016 versus September 2015. The profit and loss account is set out on page 26 of this financial report. For the third quarter of 2016, the company's profit for the financial period was \$305 million, compared with \$688 million for the third quarter of 2015.

Net revenues were \$1.55 billion for the third quarter of 2016, 4% higher than the third quarter of 2015, reflecting higher net revenues in Institutional Client Services and, to a lesser extent, significantly higher net revenues in Investing & Lending. These increases were partially offset by significantly lower net revenues in Investment Banking and lower net revenues in Investment Management.

Administrative expenses were \$1.05 billion for the third quarter of 2016, 88% higher than the third quarter of 2015, primarily reflecting an increase in the mark-to-market impact of share-based compensation.

Nine Months Ended September 2016 versus September 2015. For the first nine months of 2016, the company's profit for the financial period was \$1.32 billion, a decrease of 21% compared with the first nine months of 2015.

Net revenues were \$4.89 billion for the first nine months of 2016, 11% lower than the first nine months of 2015, primarily due to lower net revenues in Institutional Client Services. In addition, net revenues in Investment Management were significantly lower and net revenues in Investment Banking were lower. These results reflected the impact of a challenging environment during the first quarter of 2016. These decreases were partially offset by significantly higher net revenues in Investing & Lending.

Administrative expenses were \$2.86 billion for the first nine months of 2016, 11% lower than the first nine months of 2015, primarily due to lower direct costs of employment, reflecting a decrease in net revenues.

See "Results of Operations" below for further information about the company's net revenues, segment reporting and administrative expenses.

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Capital Ratios

The company maintained strong capital ratios. As of September 2016, the company's Common Equity Tier 1 ratio was 11.8% (under CRD IV as defined in "Equity Capital Management and Regulatory Capital — Regulatory Capital").

Liquidity

The company maintained strong liquidity. As of September 2016, the company's global core liquid assets were \$58.01 billion. See "Risk Management — Liquidity Risk Management" for further information about the company's global core liquid assets.

Balance Sheet

The balance sheet is set out on page 27 of this financial report. In the subsequent paragraphs, total assets are the sum of "Fixed assets", "Current assets" and the company's "Pension surplus". Total liabilities are the sum of "Creditors: amounts falling due within one year", "Creditors: amounts falling due after more than one year" and "Provisions for liabilities".

As of September 2016, total assets were \$1,072.68 billion, an increase of \$222.19 billion from December 2015, reflecting increases in financial instruments owned of \$176.82 billion, collateralised agreements of \$26.05 billion and debtors of \$14.24 billion. Financial instruments owned increased primarily due to the impact of movements in interest rates on the fair value of derivative instruments. Collateralised agreements increased primarily due to changes in client activity. Debtors increased primarily due to an increase in cash collateral posted to counterparties and an increase in client activity.

As of September 2016, total liabilities were \$1,045.12 billion, an increase of \$220.98 billion from December 2015, reflecting increases in financial instruments sold, but not yet purchased of \$180.33 billion, collateralised financings of \$26.02 billion and other creditors of \$14.60 billion. Financial instruments sold, but not yet purchased increased primarily due to the impact of movements in interest rates on the fair value of derivative instruments. Collateralised financings increased primarily due to changes in client activity. Other creditors increased primarily due to an increase in cash collateral received from counterparties.

U.S. GAAP Results

The company also prepares results under United States Generally Accepted Accounting Principles (U.S. GAAP), which are included in the consolidated financial statements of GS Group.

The company's profit under U.S. GAAP differs from that under U.K. GAAP primarily due to timing differences in the recognition of certain revenues and expenses. Under U.S. GAAP, the company's profit for the third quarter of 2016 was not significantly different from that reported under U.K. GAAP.

The company's total assets and total liabilities under U.S. GAAP differ from those reported under U.K. GAAP primarily due to the company presenting derivative balances gross under U.K. GAAP if they are not net settled in the normal course of business, even where it has a legally enforceable right to offset those balances. Under U.S. GAAP, as of September 2016, total assets were \$377.10 billion, an increase of \$39.25 billion from December 2015. This increase primarily reflected an increase in collateralised agreements due to changes in client activity. Total liabilities were \$349.34 billion, an increase of \$37.93 billion from December 2015. This increase primarily reflected an increase in collateralised financings due to changes in client activity.

Future Outlook

The directors consider that the period-end financial position of the company was satisfactory. No significant change in the company's principal business activities is currently expected.

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Business Environment

Global

During the third quarter of 2016, global economic conditions appeared to be mixed compared with the previous quarter, as real gross domestic product (GDP) growth increased in the United States and Japan, while growth declined slightly in the United Kingdom and China. Real GDP growth remained stable in the Euro area. Macroeconomic conditions were fairly benign for most of the quarter and aside from a small spike in mid-September, volatility in equity markets remained low. A key market focus was the monetary policy of the major central banks. The Bank of England (BOE) announced a monetary easing package comprised of a 25 basis points cut to the official bank rate, £70 billion of asset purchases, and a Term Funding Scheme. The Bank of Japan altered the framework for its Qualitative and Quantitative Easing programme, shifting from purchasing set quantities of assets to targeting a 0% yield on the 10-year Japanese government bond. The European Central Bank (ECB) has yet to announce any extension of its asset purchase programme, currently set to end in March 2017, raising concerns that the ECB may begin to taper its purchases. The U.S. Federal Reserve, after stating last December that it expected to increase rates four times in 2016, has yet to raise rates through the first three quarters of the year. The price of crude oil declined in early August, briefly reaching below \$40 per barrel (WTI) before increasing to approximately \$48 per barrel by the end of September, just below where it began the quarter. In investment banking, industry-wide equity underwriting activity improved slightly, but industry-wide announced mergers and acquisitions activity declined compared with the second quarter of 2016.

Europe

In the Euro area, real GDP growth remained stable compared with the second quarter of 2016, while measures of inflation remained low. Measures of unemployment in the Euro area remained high, and the ECB maintained its main refinancing operations rate at 0.00% and its deposit rate at (0.40)%. The Euro appreciated by 1% against the U.S. dollar during the quarter. In the United Kingdom, real GDP growth decreased slightly compared with the previous quarter. The BOE cut its official bank rate from 0.50% to 0.25%, and the British pound depreciated by 3% against the U.S. dollar. Yields on 10-year government bonds generally declined in the region, with the yield on 10-year German bunds ending the quarter further into negative territory. In equity markets, the DAX Index, FTSE 100 Index, CAC 40 Index and Euro Stoxx 50 Index increased by 9%, 6%, 5% and 5%, respectively, compared with the end of the second quarter of 2016.

Critical Accounting Policy

For a description of the company's critical accounting policy, fair value, see "Critical Accounting Policy" in Part I of the 2015 Annual Report.

The fair values for substantially all of the company's financial assets and financial liabilities that are fair valued on a recurring basis are based on observable prices and inputs and are classified in levels 1 and 2 of the fair value hierarchy. Total level 3 financial assets were \$6.06 billion and \$6.04 billion as of September 2016 and December 2015, respectively. See Note 17 to the financial statements for further information about level 3 financial assets, including changes in level 3 financial assets and related fair value measurements.

Results of Operations

The composition of the company's net revenues has varied over time as financial markets and the scope of its operations have changed. The composition of net revenues can also vary over the shorter term due to fluctuations in economic and market conditions. See "Principal Risks and Uncertainties" in Part I of the 2015 Annual Report for further information about the impact of economic and market conditions on the company's results of operations. In addition to transactions entered into with third parties, the company also enters into transactions with affiliates in the normal course of business as part of its market-making activities and general operations.

Net Revenues

Net revenues include the net profit arising from transactions, with both third parties and affiliates, in securities, foreign exchange and other financial instruments, and fees and commissions. This is inclusive of associated interest and dividends. See "Segment Reporting" below for further details.

Management Report

Segment Reporting

The table below presents the net revenues of the company's segments.

\$ in millions	Three Months		Nine Months	
	Ended September	2015	Ended September	2015
Investment Banking				
Financial Advisory	\$ 120	\$ 167	\$ 457	\$ 463
Underwriting	75	139	451	588
Total Investment Banking	\$ 195	\$ 306	\$ 908	\$1,051
Institutional Client Services				
Fixed Income, Currency and				
Commodities Client Execution	\$ 716	\$ 514	\$2,003	\$2,055
Equities	476	565	1,404	1,832
Total Institutional Client Services	\$1,192	\$1,079	\$3,407	\$3,887
Investing & Lending	\$ 95	\$ 19	\$ 356	\$ 172
Investment Management	\$ 67	\$ 82	\$ 218	\$ 377
Total net revenues	\$1,549	\$1,486	\$4,889	\$5,487

Investment Banking

Investment Banking is comprised of:

Financial Advisory. Includes strategic advisory engagements with respect to mergers and acquisitions, divestitures, corporate defence activities, restructurings, spin-offs, risk management and derivative transactions directly related to these client advisory engagements.

Underwriting. Includes equity and debt underwriting of public offerings and private placements, including local and cross-border transactions and acquisition financing, of a wide range of securities, loans and other financial instruments, and derivative transactions directly related to these client underwriting activities.

Three Months Ended September 2016 versus September 2015. Net revenues in Investment Banking were \$195 million for the third quarter of 2016, 36% lower than the third quarter of 2015.

Net revenues in Financial Advisory were \$120 million, 28% lower compared with a strong third quarter of 2015, primarily reflecting a decrease in client advisory activity. Net revenues in Underwriting were \$75 million, 46% lower than the third quarter of 2015, primarily due to significantly lower net revenues in debt underwriting, reflecting lower structured finance and leveraged finance activity. Net revenues in equity underwriting were higher compared with the third quarter of 2015, reflecting an increase in European secondary offerings.

As of September 2016, the company's investment banking transaction backlog increased significantly compared with the end of the second quarter of 2016, but was significantly lower compared with the end of the third quarter of 2015. The increase compared with the end of the second quarter of 2016 was due to significantly higher estimated net revenues from potential equity and debt underwriting transactions.

The company's investment banking transaction backlog represents an estimate of future net revenues from investment banking transactions where the company believes that future revenue realisation is more likely than not. The company believes changes in its investment banking transaction backlog may be a useful indicator of client activity levels which, over the long term, impact net revenues. However, the time frame for completion and corresponding revenue recognition of transactions in the backlog varies based on the nature of the engagement, as certain transactions may remain in the backlog for longer periods of time and others may enter and leave within the same reporting period. In addition, the company's transaction backlog is subject to certain limitations, such as assumptions about the likelihood that individual client transactions will occur in the future. Transactions may be cancelled or modified, and transactions not included in the estimate may also occur.

Nine Months Ended September 2016 versus September 2015. Net revenues in Investment Banking were \$908 million for the first nine months of 2016, 14% lower than the first nine months of 2015.

Net revenues in Financial Advisory were \$457 million, essentially unchanged compared with the first nine months of 2015. Net revenues in Underwriting were \$451 million, 23% lower than the first nine months of 2015, primarily due to significantly lower net revenues in equity underwriting, reflecting a decline in European initial public offerings. Net revenues in debt underwriting were essentially unchanged compared with the first nine months of 2015.

During the first nine months of 2016, the company's investment banking transaction backlog decreased significantly due to significantly lower estimated net revenues from potential advisory transactions and lower estimated net revenues from potential debt underwriting transactions compared with strong levels at the end of 2015. These declines were partially offset by significantly higher estimated net revenues from potential equity underwriting transactions.

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Institutional Client Services

Institutional Client Services is comprised of:

Fixed Income, Currency and Commodities Client Execution.

Includes client execution activities related to making markets in both cash and derivative instruments for interest rate products, credit products, mortgages, currencies and commodities.

- **Interest Rate Products.** Government bonds (including inflation-linked securities) across maturities, other government-backed securities, securities sold under agreements to repurchase (repurchase agreements), and interest rate swaps, options and other interest rate derivatives.
- **Credit Products.** Investment-grade corporate securities, high-yield securities, credit derivatives, exchange-traded funds, bank and bridge loans, municipal securities, emerging market and distressed debt, and trade claims.
- **Mortgages.** Commercial mortgage-related securities, loans and derivatives, residential mortgage-related securities, loans and derivatives, and other asset-backed securities, loans and derivatives.
- **Currencies.** Currency options, spot/forwards and other derivatives on G-10 currencies and emerging-market products.
- **Commodities.** Commodity derivatives and, to a lesser extent, physical commodities, involving crude oil and petroleum products, natural gas, base, precious and other metals, electricity, coal, agricultural and other commodity products.

Equities. Includes client execution activities related to making markets in equity products and commissions and fees from executing and clearing institutional client transactions on major stock, options and futures exchanges worldwide, as well as over-the-counter (OTC) transactions. Equities also includes the securities services business, which provides financing, securities lending and other prime brokerage services to institutional clients, including hedge funds, mutual funds, pension funds and foundations, and generates revenues primarily in the form of interest rate spreads or fees.

As a market maker, the company facilitates transactions in both liquid and less liquid markets, primarily for institutional clients, such as corporations, financial institutions, investment funds and governments, to assist clients in meeting their investment objectives and in managing their risks. In this role, the company seeks to earn the difference between the price at which a market participant is willing to sell an instrument to the company and the price at which another market participant is willing to buy it from the company, and vice versa (i.e., bid/offer spread). In addition, the company maintains inventory, typically for a short period of time, in response to, or in anticipation of, client demand. The company also holds inventory in order to actively manage its risk exposures that arise from these market-making activities. The company's market-making inventory is recorded in financial instruments owned (long positions) or financial instruments sold, but not yet purchased (short positions) on its balance sheet.

The company's results are influenced by a combination of interconnected drivers, including client activity levels, bid/offer spreads, changes in the fair value of its inventory, and interest income and interest expense related to the holding and funding of its inventory. The amount and composition of the company's net revenues vary over time as these drivers are impacted by multiple interrelated factors affecting economic and market conditions, including volatility and liquidity in the market, changes in interest rates, currency exchange rates, credit spreads, equity prices and commodity prices, investor confidence, and other macroeconomic concerns and uncertainties.

In general, assuming all other market-making conditions remain constant, increases in client activity levels or bid/offer spreads tend to result in increases in net revenues, and decreases tend to have the opposite effect. However, changes in market-making conditions can materially impact client activity levels and bid/offer spreads, as well as the fair value of the company's inventory. For example, a decrease in liquidity in the market could have the impact of (i) increasing the company's bid/offer spread, (ii) decreasing investor confidence and thereby decreasing client activity levels, and (iii) wider credit spreads on the company's inventory positions.

Management Report

Challenging trends in the operating environment for Institutional Client Services that existed throughout the second half of 2015 continued during the first quarter of 2016, including concerns and uncertainties about global growth and central bank activity. These concerns contributed to significant price pressure at the beginning of the year across both equity and fixed income markets.

At the start of the second quarter of 2016, market-making conditions improved in many businesses as these concerns moderated. However, later in the quarter, the market became increasingly focused on the political uncertainty and economic implications surrounding the potential exit of the United Kingdom from the European Union. In response to the “leave vote”, the FTSE 100 Index declined 6% in two days and volumes generally spiked, both of which largely reversed shortly thereafter.

The operating environment continued to improve during the third quarter of 2016, as European equity markets steadily increased, with the FTSE 100 Index up 6% and the Euro Stoxx 50 Index up 5%. In addition, credit spreads tightened during the quarter with European investment grade and high-yield cash spreads tightening by 12 basis points and 38 basis points, respectively. However, London Stock Exchange average trade volumes continued to decline, decreasing 2%, compared with the second quarter of 2016. Volatility also continued its downward trend during the third quarter after reaching high levels in February, with the VIX declining to 11 at its lowest point. Oil and European natural gas prices remained at low levels, with prices of approximately \$48 per barrel (WTI) and €15.66 per MWh, respectively. Low interest rates and slow global economic growth continued to impact client sentiment, risk appetite and activity levels throughout the first nine months of 2016. See “Business Environment” above for further information about economic and market conditions in the global operating environment during the quarter.

Three Months Ended September 2016 versus September 2015. Net revenues in Institutional Client Services were \$1.19 billion for the third quarter of 2016, 10% higher than the third quarter of 2015.

Net revenues in Fixed Income, Currency and Commodities Client Execution were \$716 million for the third quarter of 2016, 39% higher than the third quarter of 2015, due to significantly higher net revenues in interest rate products, mortgages and commodities, partially offset by lower net revenues in currencies. Net revenues in credit products were essentially unchanged. Improved market-making conditions, including tighter credit spreads, during the third quarter of 2016 were in contrast with the difficult market-making conditions, including widening credit spreads and declining commodity prices, during the third quarter of 2015. The decrease in currencies was primarily due to less favourable market-making conditions compared with the third quarter of 2015.

Net revenues in Equities were \$476 million for the third quarter of 2016, 16% lower than the third quarter of 2015, primarily reflecting significantly lower net revenues in equities client execution, due to significantly lower net revenues in cash products.

Nine Months Ended September 2016 versus September 2015. Net revenues in Institutional Client Services were \$3.41 billion for the first nine months of 2016, 12% lower than the first nine months of 2015.

Net revenues in Fixed Income, Currency and Commodities Client Execution were \$2.00 billion for the first nine months of 2016, 3% lower than the first nine months of 2015, primarily reflecting the impact of difficult market-making conditions during the first quarter of 2016. Net revenues were significantly lower in currencies, reflecting less favourable market-making conditions compared with the first nine months of 2015, which included a strong first quarter of 2015. Net revenues were also significantly lower in credit products, reflecting the difficult market-making conditions particularly during the first quarter of 2016. These decreases were partially offset by significantly higher net revenues in commodities and mortgages, and higher net revenues in interest rate products. The increase in commodities and mortgages reflected improved market-making conditions during the second quarter of 2016.

Net revenues in Equities were \$1.40 billion for the first nine months of 2016, 23% lower than the first nine months of 2015, due to significantly lower net revenues in equities client execution, reflecting significantly lower net revenues in derivatives and cash products.

Investing & Lending

Investing & Lending includes direct investments made by the company, which are typically longer-term in nature, and net revenues associated with providing investing services to other GS Group entities.

Three Months Ended September 2016 versus September 2015. Net revenues in Investing & Lending were \$95 million for the third quarter of 2016, compared with \$19 million for the third quarter of 2015. This increase was primarily due to generally more favourable market movements compared with the third quarter of 2015.

Nine Months Ended September 2016 versus September 2015. Net revenues in Investing & Lending were \$356 million for the first nine months of 2016, compared with \$172 million for the first nine months of 2015, primarily due to generally more favourable market movements compared with the first nine months of 2015.

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Investment Management

Investment Management provides investment management and wealth advisory services, including portfolio management and financial counselling, and brokerage and other transaction services to high-net-worth individuals and families. Investment Management also includes net revenues associated with providing investing services to funds managed by GS Group.

Three Months Ended September 2016 versus September 2015. Net revenues in Investment Management were \$67 million for the third quarter of 2016, 18% lower than the third quarter of 2015, reflecting significantly lower management and other fees, primarily due to a decrease in net revenues from providing investing services to funds managed by GS Group.

Nine Months Ended September 2016 versus September 2015. Net revenues in Investment Management were \$218 million for the first nine months of 2016, 42% lower than the first nine months of 2015, reflecting significantly lower management and other fees, primarily due to a decrease in net revenues from providing investing services to funds managed by GS Group.

Administrative Expenses

Administrative expenses are primarily influenced by compensation (including the impact of the Group Inc. share price on share-based compensation), headcount and levels of business activity. Direct costs of employment include salaries, allowances, estimated year-end discretionary compensation, amortisation and mark-to-market of share-based compensation and other items such as benefits. Discretionary compensation is significantly impacted by, among other factors, the level of net revenues, overall financial performance, prevailing labour markets, business mix, the structure of share-based compensation programmes and the external environment.

The table below presents the company's administrative expenses and total staff (which includes employees, consultants and temporary staff).

\$ in millions	Three Months		Nine Months	
	Ended September 2016	2015	Ended September 2016	2015
Direct costs of employment ¹	\$ 741	\$ 272	\$1,874	\$2,333
Brokerage, clearing, exchange and distribution fees	133	125	428	418
Market development	10	21	47	72
Communications and technology	22	22	64	67
Depreciation of tangible fixed assets	1	1	3	3
Occupancy	40	43	122	129
Professional fees	29	38	95	101
Other expenses	73	35	223	88
Total non-compensation expenses	308	285	982	878
Total administrative expenses	\$1,049	\$ 557	\$2,856	\$3,211
Total staff at period-end	6,014	6,521		

1. Includes a charge of \$108 million and a credit of \$285 million for the three months ended September 2016 and September 2015, respectively, and a credit of \$113 million and a credit of \$92 million for the nine months ended September 2016 and September 2015, respectively, relating to the mark-to-market of share-based compensation.

Three Months Ended September 2016 versus September 2015. Administrative expenses were \$1.05 billion for the third quarter of 2016, 88% higher than the third quarter of 2015. Direct costs of employment were \$741 million for the third quarter of 2016, compared with \$272 million for the third quarter of 2015, primarily reflecting an increase in the mark-to-market impact of share-based compensation. Excluding the mark-to-market impact of share-based compensation for both periods, direct costs of employment were \$633 million for the third quarter of 2016, 14% higher than the third quarter of 2015. Total staff was essentially unchanged during the third quarter of 2016.

Non-compensation expenses were \$308 million for the third quarter of 2016, 8% higher than the third quarter of 2015.

Nine Months Ended September 2016 versus September 2015. Administrative expenses were \$2.86 billion for the first nine months of 2016, 11% lower than the first nine months of 2015. Direct costs of employment were \$1.87 billion for the first nine months of 2016, 20% lower than the first nine months of 2015. Excluding the mark-to-market impact of share-based compensation for both periods, direct costs of employment were \$1.99 billion for the first nine months of 2016, 18% lower than the first nine months of 2015, reflecting a decrease in net revenues. Total staff decreased 7% during the first nine months of 2016.

Non-compensation expenses were \$982 million for the first nine months of 2016, 12% higher than the first nine months of 2015.

Interest Payable and Similar Charges

Interest payable and similar charges comprises interest on long-term subordinated loans from parent and group undertakings.

Three Months Ended September 2016 versus September 2015. Interest payable and similar charges was \$87 million for the third quarter of 2016, 10% higher than the third quarter of 2015, reflecting an increase in average interest rates.

Nine Months Ended September 2016 versus September 2015. Interest payable and similar charges was \$257 million for the first nine months of 2016, 26% higher than the first nine months of 2015, reflecting an increase in the average long-term subordinated loans balance and an increase in average interest rates.

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Tax on Profit on Ordinary Activities

The effective tax rate for the first nine months of 2016 was 25.9%, which compares to the U.K. corporate tax rate applicable to the company of 28.0% for 2016. The effective tax rate represents the company's tax on profit on ordinary activities divided by its profit on ordinary activities before taxation. The U.K. corporate tax rate applicable to the company increased from 20.25% for the full year of 2015 mainly due to the introduction of an 8 percentage point surcharge on banking profits.

In September 2016, the U.K. government enacted a budget that will reduce the U.K. corporate tax rate by 1 percentage point effective April 1, 2020. During the third quarter of 2016, the company remeasured its deferred tax asset accordingly. This change did not have a material impact on the company's effective tax rate for the nine months ended September 2016. This budget enactment is in addition to the U.K. corporate tax rate reductions already enacted in 2015 of: (i) a 1 percentage point effective in 2017; and (ii) a further 1 percentage point effective in 2020, both of which were reflected in the remeasurement of the company's deferred tax asset in 2015.

Balance Sheet and Funding Sources

Balance Sheet Management

One of the company's risk management disciplines is its ability to manage the size and composition of its balance sheet. GSI leverages the firmwide balance sheet management process performed at the GS Group level to manage these factors. While the asset base of Group Inc. and its subsidiaries changes due to client activity, market fluctuations and business opportunities, the size and composition of the company's balance sheet also reflects factors including (i) the overall risk tolerance of GS Group, (ii) the amount of equity capital held by GS Group and (iii) the funding profile of GS Group, among other factors. See "Equity Capital Management and Regulatory Capital — Equity Capital Management" for information about the company's equity capital management process.

In order to ensure appropriate risk management, GSI seeks to maintain a sufficiently liquid balance sheet and leverages GS Group's processes to dynamically manage its assets and liabilities which include (i) quarterly planning, (ii) business-specific limits, (iii) monitoring of key metrics and (iv) scenario analyses. See "Balance Sheet and Funding Sources — Balance Sheet Management" in Part I of the 2015 Annual Report for further information about the company's balance sheet management process.

Liquidity and Cash

The company maintains liquidity to meet a broad range of potential cash outflows and collateral needs in a stressed environment, referred to as Global Core Liquid Assets (GCLA). See "Risk Management — Liquidity Risk Management — Global Core Liquid Assets" for details about the composition and sizing of the company's GCLA.

Funding Sources

The company's primary sources of funding are secured financings, intercompany unsecured borrowings and external unsecured borrowings. GSI raises this funding through a number of different products, including:

- Collateralised financings, which are repurchase agreements and securities loaned;
- Intercompany unsecured loans from Group Inc. and other affiliates; and
- Debt securities issued to both external counterparties and affiliates, which includes securitised derivative products (including notes, certificates and warrants) and vanilla debt, as well as transfers of assets accounted for as financings rather than sales.

GSI generally distributes funding products through its own sales force and third-party distributors to a large, diverse creditor base in a variety of global markets. The company believes that its relationships with external creditors are critical to its liquidity. These creditors include banks, securities lenders, pension funds, insurance companies, mutual funds and individuals. GSI has imposed various internal guidelines to monitor creditor concentration across its external funding programmes.

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Secured Funding. The company funds a significant amount of inventory on a secured basis, with external counterparties as well as with affiliates, including repurchase agreements, securities loaned and other secured financings. The company may also pledge its inventory as collateral for securities borrowed under a securities lending agreement or as collateral for derivative transactions. Secured funding is less sensitive to changes in Group Inc. and/or GSI's credit quality than unsecured funding, due to the posting of collateral to lenders. Nonetheless, GSI continually analyses the refinancing risk of its secured funding activities, taking into account trade tenors, maturity profiles, counterparty concentrations, collateral eligibility and counterparty rollover probabilities. GSI seeks to mitigate its refinancing risk by executing term trades with staggered maturities, diversifying counterparties, raising excess secured funding, and pre-funding residual risk through the GCLA.

GSI seeks to raise secured funding with a term appropriate for the liquidity of the assets that are being financed, and seeks longer maturities for secured funding collateralised by asset classes that may be harder to fund on a secured basis, especially during times of market stress, such as: mortgage and other asset-backed loans and securities; non-investment-grade corporate debt securities; equities and convertible debentures; and emerging market securities. Substantially all of GSI's external secured funding, excluding funding collateralised by liquid government obligations, is executed for tenors of one month or greater.

A majority of the company's secured funding for securities not eligible for inclusion in the GCLA is executed through term repurchase agreements and securities loaned contracts. The company also raises financing through debt securities.

The table below presents GSI's secured funding.

<i>\$ in millions</i>	As of	
	September 2016	December 2015
Repurchase agreements ¹	\$ 88,545	\$ 38,578
Securities loaned ¹	52,585	77,807
Amounts due to parent and group undertakings – secured borrowings	270	–
Debt securities issued	2,696	2,350
Short-term secured funding	144,096	118,735
Repurchase agreements	4,779	3,502
Debt securities issued	1,411	1,908
Long-term secured funding	6,190	5,410
Total²	\$150,286	\$124,145

- Short-term repurchase agreements and securities loaned as of September 2016 increased by \$24.75 billion compared with December 2015, primarily due to changes in client activity. In addition, the company terminated \$33.25 billion of intercompany securities loaned transactions and rebooked them as repurchase agreements in order to achieve greater operational efficiency.
- Secured funding with external counterparties totalled \$44.95 billion and \$39.84 billion as of September 2016 and December 2015, respectively. Secured funding with affiliates totalled \$105.34 billion and \$84.31 billion as of September 2016 and December 2015, respectively.

The weighted average maturity of the company's external secured funding, excluding funding that can only be collateralised by highly liquid securities eligible for inclusion in the GCLA, exceeded 120 days as of September 2016.

Intercompany Unsecured Borrowings. GSI sources funding through intercompany unsecured borrowings from Group Inc. and other affiliates. The majority of GS Group's unsecured funding is raised by Group Inc., which lends the necessary funds to its subsidiaries, including GSI, to meet asset financing, liquidity and capital requirements. The benefits of this approach to subsidiary funding are enhanced control and greater flexibility to meet the funding requirements of GSI and other subsidiaries. Intercompany unsecured borrowings also include debt securities issued.

The table below presents GSI's intercompany unsecured borrowings.

<i>\$ in millions</i>	As of	
	September 2016	December 2015
Amounts due to parent and group undertakings – unsecured borrowings	\$24,859	\$27,195
Debt securities issued	2,231	1,778
Short-term intercompany unsecured borrowings	27,090	28,973
Long-term subordinated loans	8,958	8,958
Amounts due to parent and group undertakings – unsecured borrowings	16,713	14,316
Debt securities issued	1,086	671
Long-term intercompany unsecured borrowings	26,757	23,945
Total	\$53,847	\$52,918

External Unsecured Borrowings. External unsecured borrowings include debt securities issued, bank loans and overdrafts.

The table below presents GSI's external unsecured borrowings.

<i>\$ in millions</i>	As of	
	September 2016	December 2015
Bank loans	\$ 164	\$ 63
Overdrafts	87	4
Debt securities issued	8,260	9,722
Short-term external unsecured borrowings	8,511	9,789
Bank loans	–	100
Debt securities issued	9,371	5,317
Long-term external unsecured borrowings	9,371	5,417
Total	\$17,882	\$15,206

Total Shareholder's Funds

GSI held \$27.56 billion and \$26.35 billion of total shareholder's funds as of September 2016 and December 2015, respectively. See "Equity Capital Management and Regulatory Capital — Regulatory Capital" for further information about GSI's capital.

Management Report

Equity Capital Management and Regulatory Capital

Capital adequacy is of critical importance to the company. The company has in place a comprehensive capital management policy that provides a framework, defines objectives and establishes guidelines to assist the company in maintaining the appropriate level and composition of capital in both business-as-usual and stressed conditions.

Equity Capital Management

The company determines the appropriate level and composition of its equity capital by considering multiple factors including the company's current and future regulatory capital requirements, the results of the company's capital planning and stress testing process and other factors such as rating agency guidelines, the business environment and conditions in the financial markets.

The company's capital planning and stress testing process incorporates internally designed stress tests and those required under the PRA's Internal Capital Adequacy Assessment Process (ICAAP). It is also designed to identify and measure material risks associated with business activities including market risk, credit risk, operational risk and other risks. The company's goal is to hold sufficient capital to ensure that it remains adequately capitalised after experiencing a severe stress event. The company's assessment of capital adequacy is viewed in tandem with its assessment of liquidity adequacy and is integrated into its overall risk management structure, governance and policy framework.

In addition, as part of the company's comprehensive capital management policy, a contingency capital plan is maintained that provides a framework for analysing and responding to a perceived or actual capital deficiency, including, but not limited to, identification of drivers of a capital deficiency, as well as mitigants and potential actions. It outlines the appropriate communication procedures to follow during a crisis period, including internal dissemination of information as well as timely communication with external stakeholders.

Regulatory Capital

The company is subject to the revised capital framework for EU-regulated financial institutions (the fourth EU Capital Requirements Directive and EU Capital Requirements Regulation, collectively known as "CRD IV"). These capital regulations are largely based on the Basel Committee's final capital framework for strengthening international capital standards (Basel III).

The risk-based capital requirements are expressed as capital ratios that compare measures of regulatory capital to risk-weighted assets (RWAs). The Common Equity Tier 1 (CET1) ratio is defined as CET1 divided by RWAs. The Tier 1 capital ratio is defined as Tier 1 capital divided by RWAs. The total capital ratio is defined as total capital divided by RWAs.

Under CRD IV, the minimum CET1, Tier 1 capital and Total capital ratios (collectively the Pillar 1 capital requirements) are supplemented by:

- A capital conservation buffer, consisting entirely of capital that qualifies as CET1, began to phase in on January 1, 2016, and will continue to do so in increments of 0.625% per year until it reaches 2.5% of RWAs on January 1, 2019.
- A countercyclical capital buffer of up to 2.5% (and also consisting entirely of CET1) in order to counteract excessive credit growth. The buffer only applies to the company's exposures to certain types of counterparties based in jurisdictions which have announced a countercyclical buffer. Since these exposures are not currently material, the buffer adds less than 0.01% to the CET1 ratio and has an immaterial impact on the capital of the company. The countercyclical capital buffer applicable to the company could change in the future and, as a result, the company's minimum ratios could increase. See "Regulatory Developments and Other Developments — Regulatory Developments — Capital Ratios" for recent developments with respect to the countercyclical capital buffer.
- Individual capital guidance under Pillar 2A (an additional amount to cover risks not adequately captured in Pillar 1). The PRA performs a periodic supervisory review of the company's ICAAP, which leads to a final determination by the PRA of individual capital guidance under Pillar 2A. This is a point in time assessment of the minimum amount of capital the PRA considers that a firm should hold.

Management Report

The table below presents the company's minimum required ratios.

	September 2016 Minimum Ratio	December 2015 Minimum Ratio
CET1 ratio	6.5%	6.1%
Tier 1 capital ratio	8.5%	8.2%
Total capital ratio	11.1%	10.9%

These minimum ratios incorporate the Pillar 2A capital guidance received from the PRA and could change in the future. In addition to the Pillar 2A capital guidance, the PRA also defines forward looking capital guidance which represents the PRA's view of the capital that the company would require to absorb losses in stressed market conditions. This is known as Pillar 2B or the "PRA buffer" and is not reflected in the minimum ratios shown above. As the capital conservation buffer phases in, as described above, it will fully or partially replace the PRA buffer.

During the nine months ended September 2016 and the year ended December 2015, GSI was in compliance with the capital requirements set by the PRA.

Regulatory Capital Ratios

The table below presents GSI's capital ratios under CRD IV.

	As of	
	September 2016	December 2015
CET1 ratio	11.8%	12.9%
Total capital ratio	15.9%	17.6%

In the table above, the CET1 ratio and Total capital ratio as of September 2016 include approximately 59 basis points attributable to the company's profit for the nine months ended September 2016. This represents the company's profit for the financial period divided by its RWAs.

See "Risk-Weighted Assets" below for further information about the increase in the company's RWAs, which contributed to the decrease in the company's CET1 ratio and Total capital ratio.

As of September 2016 and December 2015, GSI did not have any financial instruments which qualified as additional Tier 1 capital and the Tier 1 capital ratio was identical to the CET1 ratio disclosed above.

Certain CRD IV rules are subject to final technical standards and clarifications, which will be issued by the European Banking Authority (EBA) and adopted by the European Commission and PRA. All capital, RWAs and estimated ratios are based on current interpretation, expectations and understanding of CRD IV and may evolve as its interpretation and application is discussed with the company's regulators.

Capital Resources

The table below presents GSI's capital components under CRD IV.

	As of	
	September 2016	December 2015
<i>\$ in millions</i>		
Called up share capital	\$ 582	\$ 582
Share premium account including capital reserves	4,881	4,881
Retained earnings	22,101	20,890
Total shareholder's funds	27,564	26,353
Deductions	(1,109)	(1,412)
CET1	26,455	24,941
Tier 2 capital (long-term subordinated loans)	8,958	8,958
Total capital resources (net of deductions)	\$35,413	\$33,899

Risk-Weighted Assets

The table below presents the components of RWAs within GSI's regulatory capital ratios under CRD IV. See "Equity Capital Management and Regulatory Capital" in Part I of the 2015 Annual Report for a description of each RWA component.

	As of	
	September 2016	December 2015
<i>\$ in millions</i>		
RWAs		
Credit RWAs	\$127,423	\$104,695
Market RWAs	82,547	75,795
Operational RWAs	13,305	12,303
Total RWAs	\$223,275	\$192,793

Credit RWAs as of September 2016 increased by \$22.73 billion compared with December 2015, principally reflecting an increase in derivatives due to higher counterparty credit risk and increased exposures.

Leverage Ratio

CRD IV, as amended by the European Commission Delegated Act (the Delegated Act), introduced a new leverage ratio, which compares CRD IV's definition of Tier 1 capital to a measure of leverage exposure, defined as the sum of assets less Tier 1 capital deductions plus certain off-balance-sheet exposures, including a measure of derivatives exposures, securities financing transactions and commitments. The Delegated Act does not currently include a minimum leverage ratio requirement; however, the Basel Committee has proposed a minimum requirement of 3%. Any required minimum ratio is expected to become effective for GSI on January 1, 2018. As of both September 2016 and December 2015, the company had a leverage ratio of 3.6%. The ratio as of September 2016 includes approximately 18 basis points attributable to the company's profit for the nine months ended September 2016. This leverage ratio is based on the company's current interpretation and understanding of this rule and may evolve as its interpretation and application is discussed with GSI's regulators.

Management Report

Regulatory and Other Developments

Regulatory Developments

GSI's businesses are subject to significant and evolving regulation. Reforms have been adopted or are being considered by regulators and policy makers worldwide. The expectation is that the principal areas of impact from regulatory reform for GSI will be increased regulatory capital requirements and increased regulation and restriction on certain activities. However, given that many of the new and proposed rules are highly complex, the full impact of regulatory reform will not be known until the rules are implemented and market practices develop under the final EU and/or U.K. regulations.

See "Regulatory Developments" in Part I of the 2015 Annual Report for further information about the laws, rules and regulations and proposed laws, rules and regulations that apply to the company and its operations.

Resolution and Recovery Planning. GS Group is required by the Federal Reserve Board and the Federal Deposit Insurance Corporation (FDIC) to submit a periodic plan for its rapid and orderly resolution in the event of material financial distress or failure (resolution plan). GSI is considered to be a principal material operating entity for the purposes of the periodic resolution plan prepared by GS Group. GS Group is also required by the Federal Reserve Board to submit and has submitted, on a periodic basis, a global recovery plan that outlines the steps that management could take to reduce risk, maintain sufficient liquidity, and conserve capital in times of prolonged stress. The global recovery plan outlines actions that could be taken by the company's management as part of wider actions taken by GS Group.

In April 2016, the Federal Reserve Board and the FDIC provided feedback on the 2015 resolution plans of eight systemically important U.S. domestic banking institutions and provided guidance related to the 2017 resolution plan submissions. As a principal material operating entity for the purposes of GS Group's resolution plan, the feedback and additional guidance received is applicable to GSI. While GS Group's plan was not jointly found to be deficient (i.e., non-credible or to not facilitate an orderly resolution under the U.S. bankruptcy code), the FDIC identified deficiencies and both the FDIC and Federal Reserve Board also identified certain shortcomings. In response to the feedback received, in September 2016, GS Group submitted a status report on its actions to address these shortcomings and a separate public section that explains these actions, at a high level. GS Group's 2017 resolution plan, which is due by July 1, 2017, is also required to address the shortcomings and take into account the additional guidance.

The EU Bank Recovery and Resolution Directive (BRRD) establishes a framework for the recovery and resolution of credit institutions and investment firms in the EU. The BRRD provides national supervisory authorities with tools and powers to pre-emptively address potential financial crises in order to promote financial stability and minimise taxpayers' exposure to losses.

The BRRD required EU member states to grant, by January 1, 2016, "bail-in" powers to EU resolution authorities to recapitalise a failing entity by writing down its unsecured debt or converting its unsecured debt into equity. Financial institutions in the EU (including GSI) must provide that new contracts entered into after January 1, 2016 enable such actions, and must also amend pre-existing contracts governed by non-EU law to enable such actions, when the financial institutions could incur liabilities under such pre-existing contracts after January 1, 2016. Following a six month delay in the implementation of this provision, acknowledging the difficulty of the exercise and the unavailability of standard model clauses to be used by financial institutions, on June 29, 2016, the PRA issued a policy statement setting out its final rules on contractual recognition of "bail-in" for certain liabilities that came into force on August 1, 2016. The supervisory statement published by the PRA sets out the considerations that firms can take with regard to impracticability in the context of the contractual recognition requirement of certain liabilities.

Total Loss-Absorbing Capacity. In November 2015, the Financial Stability Board issued a set of final principles and a final term sheet on a new minimum standard for total loss-absorbing capacity (TLAC) of global systemically important banks (G-SIBs). The Financial Stability Board's final standard also requires certain material subsidiaries of a G-SIB organised outside of the G-SIB's home country, such as GSI, to maintain amounts of TLAC to facilitate the transfer of losses from operating subsidiaries to the parent company.

In October 2016, the Basel Committee issued a final standard to implement capital deductions for banking organisations relating to TLAC holdings of other G-SIBs. This standard will inform how the deductions are implemented by national regulators. The impact of this standard on the company's regulatory capital requirements will depend on how it is implemented in the U.K.

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The BRRD subjects institutions to a “minimum requirement for own funds and eligible liabilities” (MREL) so that they can be resolved without causing financial instability and without recourse to public funds in the event of a failure. In September 2016, the Regulatory Technical Standards on MREL were adopted into EU law. In November 2016, the BOE published a final policy paper on its approach for setting MREL under which U.K. banks and certain investment firms, such as GSI, would need to maintain sufficient equity and liabilities that are capable of credibly bearing losses and acting as a source of recapitalisation in resolution. MREL is generally consistent with the Financial Stability Board’s TLAC standard.

MREL in the U.K. is being phased in between 2016 and January 1, 2022. For 2016, the MREL requirement will be equal to the company’s regulatory capital requirements and will be set annually thereafter by the BOE. The phase in and final requirements differ for G-SIBs, domestic systemically important banks (D-SIBs) and other institutions that are subject to a bail-in or partial transfer resolution strategy. The company is classified as a D-SIB by the PRA, and from 1 January, 2020 will be required to meet an MREL requirement of the higher of two times the Pillar 1 capital requirement plus the Pillar 2A capital requirement, or two times the applicable leverage ratio requirement. This will increase from January 1, 2022 to be the higher of two times the Pillar 1 capital requirement plus two times the Pillar 2A capital requirement, or two times the applicable leverage ratio requirement. The company expects that in addition to its current levels of regulatory capital, a portion of its intercompany borrowings from Goldman Sachs Group UK Limited, adjusted as needed to meet the subordination and maturity terms required under the final MREL rule, will serve to meet its recapitalisation requirement under MREL.

EU Market Reform. The EU has finalised the Markets in Financial Instruments Regulation and a revision of the Markets in Financial Instruments Directive (collectively, MiFID II). These include extensive market structure reforms, such as the establishment of new trading venue categories for the purposes of discharging the obligation to trade OTC derivatives on a trading platform, enhanced pre- and post-trade transparency covering a wider range of financial instruments and a reform of the equities markets. Commodities trading firms will be required to calculate their positions and adhere to specific limits. Other reforms introduce enhanced transaction reporting, the publication of best execution data by investment firms and trading venues, investor protection-related and organisational requirements. Other requirements may affect the way investment managers can pay for the receipt of investment research. On June 30, 2016, the legislative package to delay the application of MiFID II until January 3, 2018 was published in the Official Journal of the EU.

Capital Ratios. In September 2016, the U.K. Financial Policy Committee reaffirmed that it expects to maintain the countercyclical capital buffer rate at 0% until at least June 2017, absent any material change in the U.K.’s economic outlook.

Other Regulatory Developments. In January 2016, the Basel Committee finalised a revised framework for calculating minimum capital requirements for market risk. The revisions constitute a fundamental change to the calculation of both model-based and non-model-based components of market risk capital. The Basel Committee has set an effective date for first reporting under the revised framework of December 31, 2019. The European authorities have not yet proposed rules implementing the revised requirements for EU financial institutions. The company is currently evaluating the potential impact of the Basel Committee’s revised framework.

The Basel Committee continues to consult on several potential changes to regulatory capital requirements that could impact the company’s capital ratios in the future. In particular, the Basel Committee has issued consultation papers on, among other matters, revisions to the operational risk capital framework and several changes to the calculation of credit RWAs under both model-based and standardised approaches.

In April 2016, the Basel Committee issued a consultation paper proposing certain changes to the calculation of the leverage ratio and raising the possibility of additional leverage ratio requirements for G-SIBs.

The impact of all of these developments on the company (including RWAs and regulatory capital ratios) is subject to uncertainty until corresponding legislation is implemented in the EU.

In June 2016, the European Commission communicated to the European Parliament and European Council that there would be a delay to the implementation of final margin rules for uncleared derivatives. The revised implementation timeline allows for the rules to be phased in from the later of March 1, 2017 or one month following the date of entry into force of the applicable regulation. The European Parliament and European Council must approve the regulation before publication in the Official Journal of the European Union.

Management Report

In September 2016, the final margin rules issued by the U.S. federal bank regulatory agencies and the CFTC for uncleared swaps became effective. These rules will phase in through March 2017 for variation margin requirements and through September 2020 for initial margin requirements depending on the level of swaps, security-based swaps and/or exempt foreign exchange derivative transaction activity of the swap dealer and the relevant counterparty. The final rules of the U.S. federal bank regulatory agencies would generally apply to certain of the company's inter-affiliate transactions, with limited relief available from initial margin requirements for affiliates. Under the CFTC final rules, inter-affiliate transactions are exempt from initial margin requirements with certain exceptions but variation margin requirements still apply. GSI is also subject to the CFTC margin rules and is continuing to assess the impact of these rule changes; however the company expects that its margin requirements will increase as the rules phase in.

Other Developments

In June 2016, a referendum was passed for the United Kingdom to exit the European Union (Brexit). The exit of the United Kingdom from the European Union will likely change the arrangements by which U.K. firms are able to provide services in the European Union which may adversely affect the manner in which the company operates certain of its businesses in the European Union and could require the company to restructure certain of its operations. The outcome of the negotiations between the United Kingdom and the European Union in connection with Brexit is highly uncertain. Such uncertainty has resulted in, and may continue to result in market volatility and may negatively impact the confidence of investors and clients.

Principal Risks and Uncertainties

GSI faces a variety of risks that are substantial and inherent in its businesses including market, liquidity, credit, operational, model, legal, regulatory and reputational risks and uncertainties. Those risks and uncertainties are consistent with those described in the 2015 Annual Report.

Risk Management

Risks are inherent in the company's business and include liquidity, market, credit, operational, model, legal, regulatory and reputational risks. For further information about the company's risk management processes, see "Risk Management — Overview and Structure of Risk Management" in Part I of the 2015 Annual Report. Risks include the risk across the company's risk categories, regions or global businesses, as well as those which have uncertain outcomes and have the potential to materially impact the company's financial results, its liquidity and its reputation. For further information about the company's areas of risk, see "— Liquidity Risk Management", "— Market Risk Management", "— Credit Risk Management", "— Operational Risk Management" and "— Model Risk Management" below and "Principal Risks and Uncertainties" in Part I of the 2015 Annual Report.

Overview and Structure of Risk Management

The company's overview and structure of risk management is consistent with the 2015 Annual Report. See "Risk Management — Overview and Structure of Risk Management" in Part I of the 2015 Annual Report for further details.

Liquidity Risk Management

Overview

Liquidity risk is the risk that the company will be unable to fund itself or meet its liquidity needs in the event of company-specific, broader industry, or market liquidity stress events. Liquidity is of critical importance to the company, as most of the failures of financial institutions have occurred in large part due to insufficient liquidity. Accordingly, the company has in place a comprehensive and conservative set of liquidity and funding policies. The principal objective is to be able to fund the company and to enable the core businesses to continue to serve clients and generate revenues, even under adverse circumstances.

Treasury has the primary responsibility for assessing, monitoring and managing liquidity and funding strategy. Treasury is independent of the revenue-producing units and reports to GS Group's chief financial officer.

GS Group's Liquidity Risk Management and Analysis (Liquidity Risk Management) function is an independent risk management function responsible for control and oversight of GS Group's liquidity risk management framework, including stress testing and limit governance. Liquidity Risk Management is independent of the revenue-producing units and Treasury, and reports to GS Group's chief risk officer.

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Liquidity Risk Management Principles

GSI manages liquidity risk according to three principles (i) hold sufficient excess liquidity in the form of GCLA to cover outflows during a stressed period, (ii) maintain appropriate Asset-Liability Management and (iii) maintain a viable Contingency Funding Plan. See “Risk Management — Liquidity Risk Management” in Part I of the 2015 Annual Report for further details.

Global Core Liquid Assets. GCLA is liquidity that the company maintains to meet a broad range of potential cash outflows and collateral needs in a stressed environment. The company’s most important liquidity policy is to pre-fund its estimated potential cash and collateral needs during a liquidity crisis and hold this liquidity in the form of unencumbered, highly liquid securities and cash. The company believes that the securities held in its GCLA would be readily convertible to cash in a matter of days, through liquidation, by entering into repurchase agreements or from maturities of securities purchased under agreements to resell (resale agreements), and that this cash would allow it to meet immediate obligations without needing to sell other assets or depend on additional funding from credit-sensitive markets.

Asset-Liability Management. The company’s liquidity risk management policies are designed to ensure it has a sufficient amount of financing, even when funding markets experience persistent stress. The company manages maturities and diversity of funding across markets, products and counterparties, and seeks to maintain a long-dated and diversified external funding profile, taking into consideration the characteristics and liquidity profile of its assets.

Contingency Funding Plan. GS Group maintains a contingency funding plan, which has a GSI-specific addendum, to provide a framework for analysing and responding to a liquidity crisis situation or periods of market stress. The contingency funding plan outlines a list of potential risk factors, key reports and metrics that are reviewed on an ongoing basis to assist in assessing the severity of, and managing through, a liquidity crisis and/or market dislocation. The contingency funding plan also describes the company’s potential responses if assessments indicate that the company has entered a liquidity crisis, which includes pre-funding for what the company estimates will be its potential cash and collateral needs as well as utilising secondary sources of liquidity. Mitigants and action items to address specific risks which may arise are also described and assigned to individuals responsible for execution.

Liquidity Stress Tests

In order to determine the appropriate size of the company’s GCLA, an internal liquidity model is used, referred to as the Modeled Liquidity Outflow, which captures and quantifies the company’s liquidity risks. Other factors are considered including, but not limited to, an assessment of potential intraday liquidity needs through an additional internal liquidity model, referred to as the Intraday Liquidity Model, the results of the company’s long-term stress testing models, applicable regulatory requirements and a qualitative assessment of the condition of the financial markets and of the company. The results of the Modeled Liquidity Outflow, the Intraday Liquidity Model and the long-term stress testing models are reported to senior management on a regular basis. See “Risk Management — Liquidity Risk Management” in Part I of the 2015 Annual Report for further details.

GCLA and Unencumbered Metrics

GCLA. Based on the results of the company’s internal liquidity risk models, described above, as well as consideration of other factors including, but not limited to, an assessment of the company’s potential intraday liquidity needs and a qualitative assessment of the condition of the financial markets and the company, the company believes its liquidity position as of both September 2016 and December 2015 was appropriate. As of September 2016 and December 2015, the fair value of the securities and certain overnight cash deposits included in GSI’s GCLA totalled \$58.01 billion and \$59.42 billion, respectively, and the fair value of the company’s GCLA averaged \$61.47 billion and \$58.88 billion for the three months ended September 2016 and June 2016, respectively.

The table below presents the fair value of the company’s GCLA by asset class.

<i>\$ in millions</i>	Average for the Three Months Ended	
	September 2016	June 2016
Overnight cash deposits	\$12,180	\$13,364
U.S. government obligations	28,811	24,019
French government obligations	7,468	6,495
U.K. government obligations	5,503	10,361
German government obligations	5,271	2,452
Japanese government obligations	2,239	2,186
Total	\$61,472	\$58,877

The company strictly limits its GCLA to the following narrowly defined list of securities and cash because they are highly liquid, even in a difficult funding environment: (i) unencumbered U.S. government obligations; (ii) unencumbered German, French, Japanese and U.K. government obligations; and (iii) certain overnight cash deposits in U.S. dollars and other highly liquid currencies. The company does not include other potential sources of excess liquidity, such as less liquid unencumbered securities or committed credit facilities, in the GCLA.

Management Report

The company maintains its GCLA to enable it to meet current and potential liquidity requirements. The minimum GCLA required, as calculated by the Modeled Liquidity Outflow and the Intraday Liquidity Model, is held by the company directly and is intended for use only by GSI to meet its liquidity requirements, and is assumed not to be available to Group Inc. In addition to GCLA held in GSI, GS Group holds a portion of global GCLA directly at Group Inc., which in some circumstances may be additionally provided to GSI or other major subsidiaries.

Other Unencumbered Assets. In addition to its GCLA, the company has a significant amount of other unencumbered cash and financial instruments, including other government obligations, high-grade money market securities, corporate obligations, marginable equities, loans and cash deposits not included in its GCLA. The fair value of the company's other unencumbered assets averaged \$27.55 billion and \$26.05 billion for the three months ended September 2016 and June 2016, respectively. GSI does not consider these assets liquid enough to be eligible for inclusion in its GCLA.

Liquidity Regulatory Framework

The implementation of the Basel Committee's international framework for liquidity risk management, standards and monitoring calls for a liquidity coverage ratio (LCR) and a net stable funding ratio (NSFR).

The LCR is designed to ensure that the entity maintains an adequate level of unencumbered high-quality liquid assets based on expected net cash outflows under an acute short-term liquidity stress scenario. The LCR rule issued by the PRA became effective on October 1, 2015, with a phase-in period whereby certain financial institutions, including GSI, must have an 80% minimum ratio initially, increasing to 90% on January 1, 2017 and 100% on January 1, 2018.

The NSFR is designed to promote more medium- and long-term stable funding of the assets and off-balance-sheet activities of banking organisations over a one-year time horizon. The Basel Committee's NSFR framework requires banking organisations to maintain a minimum NSFR of 100%, and will be effective on January 1, 2018. The European authorities have not yet finalised rules implementing a binding NSFR for financial institutions across Europe.

The implementation of these rules, and any amendments adopted by the applicable regulatory authorities, could impact the company's liquidity and funding requirements and practices in the future.

Credit Ratings

GSI relies on the debt capital markets to fund a portion of its day-to-day operations and the cost and availability of debt financing is influenced by its credit rating and that of Group Inc. Credit ratings are also important when GSI is competing in certain markets, such as OTC derivatives, and when GSI seeks to engage in longer-term transactions. See "Principal Risks and Uncertainties — Liquidity" in Part I of the 2015 Annual Report for information about the risks associated with a reduction in GSI and/or Group Inc.'s credit rating.

The table below presents the unsecured credit ratings and outlook of GSI and Group Inc. by Fitch, Inc. (Fitch), Moody's Investors Service (Moody's) and Standard & Poor's Ratings Services (S&P).

	As of September 2016		
	Fitch	Moody's	S&P
GSI			
Short-term Debt	F1	P-1	A-1
Long-term Debt	A	A1	A
Ratings Outlook	Positive	Stable	Watch Positive
Group Inc.			
Short-term Debt	F1	P-2	A-2
Long-term Debt	A	A3	BBB+
Subordinated Debt	A-	Baa2	BBB-
Trust Preferred	BBB-	Baa3	BB
Preferred Stock	BB+	Ba1	BB
Ratings Outlook	Stable	Stable	Stable

Certain of the company's derivatives have been transacted under bilateral agreements with counterparties who may require GSI to post collateral or terminate the transactions based on changes in the credit ratings of either GSI and/or Group Inc. The company assesses the impact of these bilateral agreements by determining the collateral or termination payments that would occur assuming a downgrade by all rating agencies of both Group Inc. and GSI simultaneously and of each entity individually. A downgrade by any one rating agency, depending on the agency's relative ratings of Group Inc. and GSI at the time of the downgrade, may have an impact which is comparable to the impact of a downgrade by all rating agencies. The company attributes a portion of its GCLA to ensure that it would be able to make the additional collateral or termination payments that may be required in the event of a two-notch reduction in Group Inc. and/or GSI's long-term credit ratings, as well as collateral that has not been called by counterparties, but is available to them.

Management Report

The table below presents the additional collateral or termination payments related to the company's net derivative liabilities under bilateral agreements that could have been called at the reporting date by counterparties in the event of a one-notch and two-notch downgrade in Group Inc. and/or GSI's credit ratings.

\$ in millions	As of	
	September 2016	December 2015
Additional collateral or termination payments:		
One-notch downgrade	\$ 362	\$ 401
Two-notch downgrade	1,348	1,457

Cash Flows

As a financial institution, the company's cash flows are complex and bear little relation to the company's profitability and net assets. Consequently, the company believes that traditional cash flow analysis is less meaningful in evaluating its liquidity position than the liquidity and asset-liability management policies described above and in more detail in "Risk Management — Liquidity Risk Management" in Part I of the 2015 Annual Report. Cash flow analysis may, however, be helpful in highlighting certain macro trends and strategic initiatives in the company's businesses.

The statements of cash flows are set out on page 29 of this financial report.

Nine Months Ended September 2016. The company's cash and cash equivalents increased by \$5.37 billion to \$15.06 billion at the end of the third quarter of 2016. The company generated \$5.76 billion in net cash from operating activities.

Nine Months Ended September 2015. The company's cash and cash equivalents increased by \$6.05 billion to \$9.35 billion at the end of the third quarter of 2015. The company generated \$1.72 billion in net cash from operating activities and \$4.33 billion in net cash from financing activities mainly as a result of issuing \$2.50 billion of long-term subordinated loans and \$2.05 billion of ordinary share capital.

Market Risk Management

Overview

Market risk is the risk of loss in the value of the company's inventory, as well as certain other financial assets and financial liabilities, due to changes in market conditions. The company employs a variety of risk measures, each described in the respective sections below, to monitor market risk. The company holds inventory primarily for market making for clients. The company's inventory therefore changes based on client demands. The company's inventory is accounted for at fair value and therefore fluctuates on a daily basis, with the related gains and losses included in net revenues. Categories of market risk include the following:

- Interest rate risk: results from exposures to changes in the level, slope and curvature of yield curves, the volatilities of interest rates, mortgage prepayment speeds and credit spreads;
- Equity price risk: results from exposures to changes in prices and volatilities of individual equities, baskets of equities and equity indices;
- Currency rate risk: results from exposures to changes in spot prices, forward prices and volatilities of currency rates; and
- Commodity price risk: results from exposures to changes in spot prices, forward prices and volatilities of commodities, such as crude oil and metals.

Managers in revenue-producing units are accountable for managing risk within prescribed limits, both at the GS Group and GSI level. These managers have in-depth knowledge of their positions, markets and the instruments available to hedge their exposures.

Market Risk Management and Analysis (Market Risk Management), which is independent of the revenue-producing units and reports to the GS Group chief risk officer, has primary responsibility for assessing, monitoring and managing market risk. Risks are monitored and controlled through strong oversight and independent control and support functions across the global businesses.

Managers in revenue-producing units and Market Risk Management discuss market information, positions and estimated risk and loss scenarios on an ongoing basis.

Management Report

Market Risk Management Process

The company manages market risk by diversifying exposures, controlling position sizes and establishing economic hedges in related securities or derivatives. This process includes:

- Accurate and timely exposure information incorporating multiple risk metrics;
- A dynamic limit setting framework; and
- Constant communication among revenue-producing units, risk managers and senior management.

GSI's framework for managing market risk is consistent with, and part of, the GS Group framework, and results are analysed by business and in aggregate, at both the GS Group and GSI level.

Risk Measures. Market Risk Management produces risk measures and monitors them against market risk limits set by the GSI Risk Committee. These measures reflect an extensive range of scenarios and the results are aggregated by business at the company level.

A variety of risk measures are used to estimate the size of potential losses for both moderate and more extreme market moves over both short-term and long-term time horizons. Primary risk measures are VaR, used for shorter-term periods, and stress tests. The GSI risk report details key risks, drivers and changes for each business, and is distributed daily to senior management of both the revenue-producing units and independent control and support functions.

Value-at-Risk. VaR is the potential loss in value due to adverse market movements over a defined time horizon with a specified confidence level. A one-day time horizon with a 95% confidence level is typically employed. The VaR model is a single model that captures risks including interest rates, equity prices, currency rates and commodity prices. As such, VaR facilitates comparison across portfolios of different risk characteristics. VaR also captures the diversification of aggregated risk across GSI. See "Risk Management — Market Risk Management" in Part I of the 2015 Annual Report for further details.

Limits. Risk limits are used at various levels in GS Group (including entity, business and product) to govern risk appetite by controlling the size of its exposures to market risk. Limits for GSI are set based on VaR and on a range of stress tests relevant to the company's exposures. Limits are reviewed frequently and amended on a permanent or temporary basis to reflect changing market conditions, business conditions or tolerance for risk.

The GSI Risk Committee sets market risk limits for the company at an overall, business and product level. The purpose of the limits is to assist senior management in controlling the overall risk profile. Business level limits are designed to set the desired maximum amount of exposure that may be managed by any particular business on a day-to-day basis without additional levels of senior management approval, effectively leaving day-to-day trading decisions to individual desk managers and traders. Accordingly, business level limits are a management tool designed to ensure appropriate escalation rather than to establish maximum risk tolerance. Business level limits also distribute risk among various businesses in a manner that is consistent with their level of activity and client demand, taking into account the relative performance of each area.

Market risk limits are monitored daily by Market Risk Management, which is responsible for identifying and escalating, on a timely basis, instances where limits have been exceeded. The limits that are set by the GSI Risk Committee are subject to the same scrutiny and limit escalation policy as the GS Group limits.

When a risk limit has been exceeded (e.g., due to changes in market conditions, such as increased volatilities or changes in correlations), it is escalated to the GSI Risk Committee and remediated by an inventory reduction and/or a temporary or permanent increase to the risk limit.

Management Report

Metrics

The tables below present, by risk category, average daily VaR and period-end VaR, as well as the high and low VaR for the period. Diversification effect in the tables below represents the difference between total VaR and the sum of the VaRs for the four risk categories. This effect arises because the four market risk categories are not perfectly correlated.

The table below presents average daily VaR.

\$ in millions	Three Months Ended			Nine Months Ended September	
	September 2016	June 2016	September 2015	2016	2015
Risk Categories					
Interest rates	\$ 24	\$ 24	\$ 23	\$ 25	\$ 22
Equity prices	16	18	18	17	17
Currency rates	9	10	9	11	7
Commodity prices	1	1	1	1	1
Diversification effect	(19)	(22)	(19)	(22)	(16)
Total	\$ 31	\$ 31	\$ 32	\$ 32	\$ 31

The company's average daily VaR was \$31 million for the third quarter of 2016, unchanged from the second quarter of 2016.

The company's average daily VaR decreased to \$31 million for the third quarter of 2016 from \$32 million for the third quarter of 2015, primarily reflecting a decrease in the equity prices category due to reduced exposures.

The company's average daily VaR increased to \$32 million for the nine months ended September 2016 from \$31 million for the nine months ended September 2015, primarily reflecting an increase in currency rates and interest rates categories due to higher market volatility. These increases were partially offset by an increase in the diversification effect across risk categories.

The table below presents period-end VaR, and high and low VaR.

\$ in millions	As of			Three Months Ended September 2016	
	September 2016	June 2016	September 2015	High	Low
Risk Categories					
Interest rates	\$ 25	\$ 26	\$ 25	\$29	\$20
Equity prices	14	14	18	25	13
Currency rates	6	13	8	13	5
Commodity prices	1	1	1	3	1
Diversification effect	(15)	(19)	(20)		
Total	\$ 31	\$ 35	\$ 32	\$43	\$26

The company's daily VaR decreased to \$31 million as of September 2016 from \$35 million as of June 2016, primarily reflecting a decrease in the currency rates category due to reduced exposures. The decrease was partially offset by a decrease in the diversification effect across risk categories.

The company's daily VaR decreased to \$31 million as of September 2016 from \$32 million as of September 2015, primarily reflecting a decrease in the equity prices category, due to lower market volatility, and a decrease in the currency rates category, due to reduced exposures. The decrease was partially offset by a decrease in the diversification effect across risk categories.

During the third quarter of 2016, the company's VaR risk limit was not exceeded or reduced, but was temporarily raised on one occasion to facilitate client transactions.

Sensitivity Measures

Certain portfolios and individual positions are not included in VaR because VaR is not the most appropriate risk measure for these positions.

10% Sensitivity Measures. The table below presents market risk for inventory positions that are not included in VaR. The market risk of these positions is determined by estimating the potential reduction in net revenues of a 10% decline in the underlying asset value.

\$ in millions	As of		
	September 2016	June 2016	September 2015
Asset Categories			
Equity	\$16.4	\$17.0	\$13.0
Debt	0.2	0.3	0.3
Total	\$16.6	\$17.3	\$13.3

Management Report

Credit Risk Management

Overview

Credit risk represents the potential for loss due to the default or deterioration in credit quality of a counterparty (e.g., an OTC derivatives counterparty or a borrower) or an issuer of securities or other instruments the company holds. The company's exposure to credit risk comes mostly from client transactions in OTC derivatives. Credit risk also comes from cash placed with banks, securities financing transactions (i.e., resale and repurchase agreements and securities borrowing and lending activities) and debtors.

Credit Risk Management and Advisory (Credit Risk Management), which is independent of the revenue-producing units and reports to GS Group's chief risk officer, has primary responsibility for assessing, monitoring and managing credit risk. GSI's framework for managing credit risk is consistent with the framework of GS Group. GS Group's Credit Policy Committee and Firmwide Risk Committee establish and review credit policies and parameters for GS Group as a whole. In addition, the company holds other positions that give rise to credit risk (e.g., bonds held in inventory). These credit risks are captured as a component of market risk measures, which are monitored and managed by Market Risk Management, consistent with other inventory positions. The company also enters into derivatives to manage market risk exposures. Such derivatives also give rise to credit risk, which is monitored and managed by Credit Risk Management.

Credit Risk Management Process

Effective management of credit risk requires accurate and timely information, a high level of communication and knowledge of customers, countries, industries and products. The process for managing credit risk includes:

- Approving transactions and setting and communicating credit exposure limits;
- Monitoring compliance with established credit exposure limits;
- Assessing the likelihood that a counterparty will default on its payment obligations;
- Measuring the company's current and potential credit exposure and losses resulting from counterparty default;
- Reporting of credit exposures to senior management, the GSI board of directors and regulators;
- Use of credit risk mitigants, including collateral and hedging; and
- Communication and collaboration with other independent control and support functions such as operations, legal and compliance.

As part of the risk assessment process, Credit Risk Management performs credit reviews which include initial and ongoing analyses of the company's counterparties. For substantially all of the company's credit exposures, the core of the process is an annual counterparty credit review. A credit review is an independent analysis of the capacity and willingness of a counterparty to meet its financial obligations, resulting in an internal credit rating. The determination of internal credit ratings also incorporates assumptions with respect to the nature of and outlook for the counterparty's industry, and the economic environment. Senior personnel within Credit Risk Management, with expertise in specific industries, inspect and approve credit reviews and internal credit ratings.

The global credit risk management systems capture credit exposure to individual counterparties and on an aggregate basis to counterparties and their subsidiaries (economic groups). These systems also provide management with comprehensive information on aggregate credit risk by product, internal credit rating, industry, country and region.

Management Report

Risk Measures and Limits

Credit risk is measured based on the potential loss in the event of non-payment by a counterparty using current and potential exposure. For derivatives and securities financing transactions, current exposure represents the amount presently owed to the company after taking into account applicable netting and collateral arrangements while potential exposure represents the company's estimate of the future exposure that could arise over the life of a transaction based on market movements within a specified confidence level. Potential exposure also takes into account netting and collateral arrangements.

Credit limits are used at various levels (counterparty, economic group, industry, country) to control the size of the company's credit exposures. Limits for counterparties and economic groups are reviewed regularly and revised to reflect changing risk appetites for a given counterparty or group of counterparties. Limits for industries and countries are based on the company's risk tolerance and are designed to allow for regular monitoring, review, escalation and management of credit risk concentrations. For GS Group, the Risk Committee of the Board and the Risk Governance Committee (through delegated authority from GS Group's Firmwide Risk Committee) approve credit risk limits at the GS Group, business and product levels. The GSI Risk Committee approves the framework that governs the setting of credit risk limits at the GSI level, which is delegated to the GSI Credit Committee. Credit Risk Management sets credit limits for individual counterparties, economic groups, industries and countries. Policies authorised by GS Group's Firmwide Risk Committee, Risk Governance Committee and Credit Policy Committee prescribe the level of formal approval required for GS Group to assume credit exposure to a counterparty across all product areas, taking into account any applicable netting provisions, collateral or other credit risk mitigants.

Credit Exposures

GSI's credit exposures are described further below.

Financial Instruments Owned. Financial instruments owned includes cash instruments and derivatives. The company's credit exposure on derivatives arises primarily from market-making activities. As a market maker, the company enters into derivative transactions to provide liquidity to clients and to facilitate the transfer and hedging of their risks. The company also enters into derivatives to manage market risk exposures. In the table below cash instruments are included in the gross exposure; however, to the extent that they have been captured by market risk they are removed to arrive at net credit exposure. Derivatives are reported at fair value on a gross by counterparty basis in the company's financial statements unless it has current legal right of set-off and also intends to settle on a net basis. OTC derivatives are risk managed using the risk processes, measures and limits described above, and in more detail in "Risk Management — Credit Risk Management" in Part I of the 2015 Annual Report.

Collateralised Agreements. The company bears credit risk related to collateralised agreements only to the extent that cash advanced to the counterparty exceeds the value of the collateral received. The company's credit exposure on these transactions is therefore significantly lower than the amounts recorded on the balance sheet, which represent fair values or contractual value before consideration of collateral received. The company also has credit exposure on collateralised financings, which are liabilities on its balance sheet, to the extent that the value of collateral pledged to the counterparty for these transactions exceeds the amount of cash or collateral received.

Debtors. The company is exposed to credit risk from its debtors through its amounts due from broker/dealers and customers; and amounts due from parent and group undertakings. These primarily comprise receivables related to cash collateral paid to counterparties and clearing organisations in respect of derivative financial instrument liabilities. Debtors also includes collateralised receivables related to customer securities transactions, which generally have minimal credit risk due to both the value of the collateral received and the short-term nature of these receivables.

Cash at Bank and in Hand. Cash at bank and in hand include both interest-bearing and non-interest-bearing deposits. To mitigate the risk of credit loss, the company places substantially all of its deposits with highly-rated banks and central banks.

Management Report

The tables below present the company's gross credit exposure to financial assets and net credit exposure after taking account of assets captured by market risk in the company's risk management process, counterparty netting (i.e., the netting of financial assets and financial liabilities for a given counterparty when a legal right of setoff exists under an enforceable netting agreement), and cash and security collateral received and cash collateral posted under credit support agreements, which management considers when determining credit risk. This is presented by financial asset class and by credit rating equivalent (internally determined public rating agency equivalents).

In the tables below, certain cash collateral and security collateral amounts are slightly higher than the amounts disclosed in Note 18 to the financial statements as the below disclosure includes additional cash and security collateral that management considers when determining credit risk.

<i>\$ in millions</i>	Gross exposure	Assets captured by market risk	Counterparty netting	Cash collateral	Security collateral received	Net credit exposure
Financial Asset Class						
As of September 2016						
Financial instruments owned	\$ 792,871	\$(68,302)	\$(640,235)	\$(49,253)	\$ (17,414)	\$17,667
Collateralised agreements	189,753	-	(92,381)	-	(94,580)	2,792
Debtors	74,186	-	(563)	(42,005)	(8,873)	22,745
Cash at bank and in hand	15,142	-	-	-	-	15,142
Total	\$1,071,952	\$(68,302)	\$(733,179)	\$(91,258)	\$(120,867)	\$58,346

As of December 2015						
Financial instruments owned	\$ 616,054	\$(62,850)	\$(474,519)	\$(43,121)	\$ (13,946)	\$21,618
Collateralised agreements	163,703	-	(48,219)	-	(112,523)	2,961
Debtors	59,874	-	(542)	(32,202)	(7,900)	19,230
Cash at bank and in hand	9,974	-	-	-	-	9,974
Total	\$ 849,605	\$(62,850)	\$(523,280)	\$(75,323)	\$(134,369)	\$53,783

<i>\$ in millions</i>	Gross exposure	Assets captured by market risk	Counterparty netting	Cash collateral	Security collateral received	Net credit exposure
Credit Rating Equivalent						
As of September 2016						
AAA/Aaa	\$ 16,498	\$ -	\$ (3,636)	\$ (3,328)	\$ (1,326)	\$ 8,208
AA/Aa2	132,129	-	(63,974)	(28,315)	(23,089)	16,751
A/A2	706,464	-	(591,289)	(34,493)	(64,183)	16,499
BBB/Baa2	100,913	-	(63,226)	(16,117)	(11,683)	9,887
BB/Ba2 or lower	43,902	-	(11,002)	(8,982)	(19,613)	4,305
Unrated	72,046	(68,302)	(52)	(23)	(973)	2,696
Total	\$1,071,952	\$(68,302)	\$(733,179)	\$(91,258)	\$(120,867)	\$58,346

As of December 2015						
AAA/Aaa	\$ 15,024	\$ -	\$ (2,944)	\$ (2,385)	\$ (2,195)	\$ 7,500
AA/Aa2	120,851	-	(53,752)	(18,425)	(33,236)	15,438
A/A2	530,383	-	(415,540)	(30,443)	(69,077)	15,323
BBB/Baa2	77,943	-	(41,552)	(15,834)	(11,334)	9,223
BB/Ba2 or lower	38,302	-	(9,386)	(8,140)	(17,536)	3,240
Unrated	67,102	(62,850)	(106)	(96)	(991)	3,059
Total	\$ 849,605	\$(62,850)	\$(523,280)	\$(75,323)	\$(134,369)	\$53,783

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The unrated net credit exposure of \$2.70 billion and \$3.06 billion as of September 2016 and December 2015, respectively, relates to financial assets for which the company has not assigned an internally determined public rating agency equivalent.

In addition to credit risk on financial assets, the company also has credit exposure in respect of contingent and forward starting resale and securities borrowing agreements. The company's gross credit exposure related to these activities is \$55.71 billion and \$29.28 billion as of September 2016 and December 2015, respectively. However, this will be mitigated by collateral of approximately \$55.51 billion and \$29.21 billion as of September 2016 and December 2015, respectively, if these commitments are fulfilled. As a result, the company's net credit exposure to these commitments was \$199 million and \$64 million as of September 2016 and December 2015, respectively.

As of September 2016 and December 2015, financial assets past due or impaired were not material.

Operational Risk Management

Overview

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Exposure to operational risk arises from routine processing errors as well as extraordinary incidents, such as major systems failures. Potential types of loss events related to internal and external operational risk include:

- Clients, products and business practices;
- Execution, delivery and process management;
- Business disruption and system failures;
- Employment practices and workplace safety;
- Damage to physical assets;
- Internal fraud; and
- External fraud.

GSI's framework for managing operational risk is fully integrated in GS Group's comprehensive control framework designed to provide a well-controlled environment to minimise operational risks. In GSI, the EMEA Operational Risk Committee provides regional oversight for ongoing development and implementation of the operational risk framework and promotion of a robust overall control environment. Operational Risk Management and Analysis (Operational Risk Management) is a risk management function independent of revenue-producing units, reports to GS Group's chief risk officer, and is responsible for developing and implementing policies, methodologies and a formalised framework for operational risk management with the goal of minimising exposure to operational risk.

Operational Risk Management Process

Managing operational risk requires timely and accurate information as well as a strong control culture. Operational risk is managed through:

- Training, supervision and development of people;
- Active participation of senior management in identifying and mitigating key operational risks;
- Independent control and support functions that monitor operational risk on a daily basis, and implementation of extensive policies and procedures, and controls designed to prevent the occurrence of operational risk events;
- Proactive communication between revenue-producing units and independent control and support functions; and
- A network of systems throughout GS Group, including GSI, to facilitate the collection of data used to analyse and assess operational risk exposure.

Top-down and bottom-up approaches are combined to manage and measure operational risk. From a top-down perspective, senior management assesses firmwide and business-level operational risk profiles. From a bottom-up perspective, revenue-producing units and independent control and support functions are responsible for risk management on a day-to-day basis, including identifying, mitigating, and escalating operational risks to senior management.

The company's operational risk framework is in part designed to comply with the operational risk measurement rules under Basel III and has evolved based on the changing needs of the company's businesses and regulatory guidance. The framework comprises the following practices:

- Risk identification and reporting;
- Risk measurement; and
- Risk monitoring.

Internal Audit performs an independent review of the operational risk framework, including key controls, processes and applications, on an annual basis to assess the effectiveness of the framework.

Management Report

Model Risk Management

Overview

Model risk is the potential for adverse consequences from decisions made based on model outputs that may be incorrect or used inappropriately. GS Group relies on quantitative models across its business activities primarily to value certain financial assets and liabilities, to monitor and manage its risk, and to measure and monitor its regulatory capital.

GSI's framework for managing model risk is consistent with and part of GS Group's framework. GS Group's model risk management framework is managed through a governance structure and risk management controls, which encompass standards designed to ensure it maintains a comprehensive model inventory, including risk assessment and classification, sound model development practices, independent review and model-specific usage controls. GS Group's Firmwide Risk Committee and GS Group's Firmwide Model Risk Control Committee oversee the model risk management framework. GS Group's independent model risk management group (Model Risk Management), which is independent of model developers, model owners and model users, reports to GS Group's chief risk officer, is responsible for identifying and reporting significant risks associated with models, and provides periodic updates on model risk to senior management, risk committees and GS Group's Risk Committee of the Board.

Model Review and Validation

Model Risk Management consists of quantitative professionals who perform an independent review, validation and approval of the models. This review includes an analysis of the model documentation, independent testing, an assessment of the appropriateness of the methodology used, and verification of compliance with model development and implementation standards. Model Risk Management reviews all existing models on an annual basis, as well as new models or significant changes to models.

The model validation process incorporates a review of models and trade and risk parameters across a broad range of scenarios (including extreme conditions) in order to critically evaluate and verify:

- The model's conceptual soundness, including the reasonableness of model assumptions, and suitability for intended use;
- The testing strategy utilised by the model developers to ensure that the models function as intended;
- The suitability of the calculation techniques incorporated in the model;
- The model's accuracy in reflecting the characteristics of the related product and its significant risks;
- The model's consistency with models for similar products; and
- The model's sensitivity to input parameters and assumptions.

Directors

S. S. Kilsby, M. O. Winkelman, I. Ealet and J. M. D. Barroso were appointed to the board of directors on May 5, 2016, June 10, 2016, June 28, 2016 and July 8, 2016, respectively.

R. A. Vince and C. A. G. Dahlbäck resigned from the board of directors on May 5, 2016 and July 20, 2016, respectively.

There were no other changes in the directorship of the company between the date of issue of this financial report and the 2015 Annual Report.

Date of Issue

This financial report was issued on November 15, 2016.

Unaudited Financial Statements

GOLDMAN SACHS INTERNATIONAL (UNLIMITED COMPANY)

Profit and Loss Account (Unaudited)

\$ in millions	Note	Three Months Ended September		Nine Months Ended September	
		2016	2015	2016	2015
Net revenues	4	\$ 1,549	\$1,486	\$ 4,889	\$ 5,487
Administrative expenses		(1,049)	(557)	(2,856)	(3,211)
Operating profit		500	929	2,033	2,276
Interest payable and similar charges		(87)	(79)	(257)	(204)
Net finance income		2	2	7	6
Profit on ordinary activities before taxation		415	852	1,783	2,078
Tax on profit on ordinary activities	5	(110)	(164)	(462)	(398)
Profit for the financial period		\$ 305	\$ 688	\$ 1,321	\$ 1,680

Net revenues and operating profit of the company are derived from continuing operations in the current and prior periods.

Statements of Comprehensive Income (Unaudited)

\$ in millions	Three Months Ended September		Nine Months Ended September	
	2016	2015	2016	2015
Profit for the financial period	\$ 305	\$ 688	\$ 1,321	\$ 1,680
Other comprehensive income/(loss)				
Items that will not be reclassified subsequently to profit or loss				
Actuarial profit/(loss) relating to the pension scheme	(209)	60	(146)	(31)
U.K. deferred tax attributable to the actuarial profit/(loss)	53	(12)	36	6
Other comprehensive income/(loss) for the financial period, net of tax	(156)	48	(110)	(25)
Total comprehensive income for the financial period	\$ 149	\$ 736	\$ 1,211	\$ 1,655

The accompanying notes are an integral part of these financial statements.

Balance Sheet (Unaudited)

\$ in millions	Note	As of	
		September 2016	December 2015
Fixed assets		\$ 90	\$ 12
Current assets			
Financial instruments owned (includes \$24,509 and \$22,036 pledged as collateral as of September 2016 and December 2015, respectively)	6	792,871	616,054
Collateralised agreements	7	189,753	163,703
Debtors	8	74,729	60,488
Cash at bank and in hand		15,142	9,974
		1,072,495	850,219
Creditors: amounts falling due within one year			
Financial instruments sold, but not yet purchased	6	(735,984)	(555,654)
Collateralised financings	9	(141,130)	(116,385)
Other creditors	10	(125,042)	(116,300)
		(1,002,156)	(788,339)
Net current assets		70,339	61,880
Total assets less current liabilities		70,429	61,892
Creditors: amounts falling due after more than one year			
Collateralised financings	9	(4,779)	(3,502)
Other creditors	10	(38,159)	(32,298)
		(42,938)	(35,800)
Provisions for liabilities	11	(25)	–
Net assets excluding pension surplus		27,466	26,092
Pension surplus		98	261
Net assets including pension surplus		\$ 27,564	\$ 26,353
Capital and reserves			
Called up share capital	12	\$ 582	\$ 582
Share premium account		4,864	4,864
Capital reserve (non-distributable)		17	17
Profit and loss account		22,101	20,890
Total shareholder's funds		\$ 27,564	\$ 26,353

Statements of Changes in Equity (Unaudited)

<i>\$ in millions</i>	Nine Months Ended September	
	2016	2015
Called up share capital		
Balance, beginning of year	\$ 582	\$ 533
Shares issued	–	49
Balance, end of period	582	582
Share premium account		
Balance, beginning of year	4,864	2,863
Shares issued	–	2,001
Balance, end of period	4,864	4,864
Capital reserve (non-distributable)		
Balance, beginning of year	17	17
Balance, end of period	17	17
Profit and loss account		
Balance, beginning of year	20,890	18,584
Profit for the financial period	1,321	1,680
Other comprehensive loss	(110)	(25)
Share-based payments	457	592
Management recharge related to share-based payments	(457)	(592)
Balance, end of period	22,101	20,239
Total shareholder's funds	\$27,564	\$25,702

No dividends were paid for the nine months ended September 2016 and September 2015.

Statements of Cash Flows (Unaudited)

\$ in millions	Note	Nine Months Ended September	
		2016	2015
Cash flows from operating activities			
Cash generated from operations	14	\$ 6,082	\$2,047
Taxation received		2	1
Taxation paid		(329)	(331)
Net cash from operating activities		5,755	1,717
Cash flows from investing activities			
Payments to acquire fixed assets		(81)	(1)
Proceeds from disposal of fixed assets		1	–
Net cash used in investing activities		(80)	(1)
Cash flows from financing activities			
Receipts from issuing ordinary share capital		–	2,050
Interest paid on long-term subordinated loans		(305)	(217)
Receipts from issuing long-term subordinated loans		–	2,500
Net cash from/(used in) financing activities		(305)	4,333
Net increase in cash and cash equivalents		5,370	6,049
Cash and cash equivalents, beginning of year		9,970	3,577
Foreign exchange losses on cash and cash equivalents		(285)	(275)
Cash and cash equivalents, end of period	13	\$15,055	\$9,351

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements (Unaudited)

Note 1.

General Information

The company is a private unlimited company and is incorporated and domiciled in England and Wales. The address of its registered office is Peterborough Court, 133 Fleet Street, London, EC4A 2BB, United Kingdom.

The company's immediate parent undertaking is Goldman Sachs Group UK Limited, a company incorporated and domiciled in England and Wales.

The ultimate controlling undertaking and the parent company of the smallest and largest group for which consolidated financial statements are prepared is The Goldman Sachs Group, Inc., a company incorporated in the United States of America. Copies of its consolidated financial statements, as well as certain regulatory filings, for example Quarterly Reports on Form 10-Q and the Annual Report on Form 10-K, that provide additional information about GS Group and its business activities, can be obtained from Investor Relations, 200 West Street, New York, NY 10282, United States of America, GS Group's principal place of business, or at www.goldmansachs.com/shareholders/.

Note 2.

Summary of Significant Accounting Policies

Basis of Presentation

The company prepares financial statements under U.K. GAAP. These financial statements have been prepared in accordance with FRS 104 'Interim Financial Reporting'. The financial statements should be read in conjunction with the 2015 Annual Report, which has been prepared in accordance with FRS 101 'Reduced Disclosure Framework'.

Accounting Policies

The accounting policies and applicable disclosure exemptions applied are consistent with those described in the 2015 Annual Report.

Note 3.

Critical Accounting Estimates and Judgements

The critical accounting estimates and judgements are consistent with those described in the 2015 Annual Report with the exception of the below.

Estimated Year-End Discretionary Compensation

A substantial portion of the company's compensation and benefits represents discretionary compensation, which is finalised at year-end. The company believes the most appropriate way to allocate estimated annual discretionary compensation among interim periods is in proportion to the net revenues earned in such periods.

Notes to the Financial Statements (Unaudited)

Note 4.

Segment Reporting

The company reports its activities in the following four business segments: Investment Banking; Institutional Client Services; Investing & Lending; and Investment Management. See “Results of Operations — Segment Reporting” in Part I of this financial report for a description of the company’s segments.

Basis of Presentation

The basis of presentation of the company’s segment reporting is consistent with that described in the 2015 Annual Report.

Segment Net Revenues

See “Results of Operations — Segment Reporting” in Part I of this financial report for the company’s segment net revenues.

Segment Operating Profit

The table below presents the operating profit of the company’s significant segments, which are Investment Banking and Institutional Client Services.

\$ in millions	Three Months		Nine Months	
	Ended September 2016	2015	Ended September 2016	2015
Investment Banking				
Net revenues	\$ 195	\$ 306	\$ 908	\$ 1,051
Administrative expenses	(154)	(205)	(583)	(680)
Operating profit	\$ 41	\$ 101	\$ 325	\$ 371
Institutional Client Services				
Net revenues	\$ 1,192	\$ 1,079	\$ 3,407	\$ 3,887
Administrative expenses	(626)	(567)	(1,940)	(2,239)
Operating profit	\$ 566	\$ 512	\$ 1,467	\$ 1,648
Total net revenues¹	\$ 1,549	\$ 1,486	\$ 4,889	\$ 5,487
Total administrative expenses^{2,3}	(1,049)	(557)	(2,856)	(3,211)
Total operating profit	\$ 500	\$ 929	\$ 2,033	\$ 2,276

1. Includes net revenues of \$162 million and \$101 million for the three months ended September 2016 and September 2015, respectively, and net revenues of \$574 million and \$549 million for the nine months ended September 2016 and September 2015, respectively, related to Investing & Lending and Investment Management.
2. Includes administrative expenses of \$161 million and \$70 million for the three months ended September 2016 and September 2015, respectively, and administrative expenses of \$446 million and \$384 million for the nine months ended September 2016 and September 2015, respectively, related to Investing & Lending and Investment Management.
3. Includes a charge of \$108 million and a credit of \$285 million for the three months ended September 2016 and September 2015, respectively, and a credit of \$113 million and a credit of \$92 million for the nine months ended September 2016 and September 2015, respectively, relating to the mark-to-market of share-based compensation that has not been allocated to the company’s segments.

Segment Assets

Substantially all of the company’s assets are attributable to Institutional Client Services.

Note 5.

Tax on Profit on Ordinary Activities

The table below presents the company’s analysis of tax on profit on ordinary activities.

\$ in millions	Three Months		Nine Months	
	Ended September 2016	2015	Ended September 2016	2015
Current tax				
U.K. corporation tax	\$104	\$ 77	\$273	\$261
Adjustments in respect of previous periods	–	–	(1)	–
Overseas taxation	35	20	84	56
Total current tax	139	97	356	317
Deferred tax				
Origination and reversal of temporary differences	(31)	67	104	81
Effect of decreased U.K. corporate tax rates	2	–	2	–
Total deferred tax	(29)	67	106	81
Total	\$110	\$164	\$462	\$398

Notes to the Financial Statements (Unaudited)

Note 6.

Financial Instruments Owned and Financial Instruments Sold, But Not Yet Purchased

Financial instruments owned and financial instruments sold, but not yet purchased comprise financial instruments and investments within the operating activities of the company. Financial instruments owned includes financial instruments owned pledged as collateral. These represent financial instruments owned and pledged to counterparties that have the right to deliver or repledge.

The table below presents the company's financial instruments owned.

\$ in millions	As of	
	September 2016	December 2015
Cash instruments		
Commercial paper, certificates of deposit, time deposits and other money market instruments	\$ 403	\$ 454
Government and agency obligations	24,571	16,654
Mortgage and other asset-backed loans and securities	577	1,094
Bank loans and bridge loans	2,471	2,128
Corporate and other debt obligations	11,137	10,240
Equities and convertible debentures	33,282	36,358
Commodities	21	9
Total cash instruments	72,462	66,937
Derivative instruments		
Interest rates	525,953	321,915
Credit	38,534	48,094
Currencies	91,162	113,522
Commodities	9,497	12,926
Equities	55,263	52,660
Total derivative instruments	720,409	549,117
Total financial instruments owned	\$792,871	\$616,054

The table below presents the company's financial instruments sold, but not yet purchased.

\$ in millions	As of	
	September 2016	December 2015
Cash instruments		
Government and agency obligations	\$ 9,666	\$ 7,433
Corporate and other debt obligations	2,283	2,417
Equities and convertible debentures	16,303	14,834
Commodities	138	–
Total cash instruments	28,390	24,684
Derivative instruments		
Interest rates	518,003	312,222
Credit	35,416	43,944
Currencies	91,895	112,892
Commodities	9,422	12,897
Equities	52,858	49,015
Total derivative instruments	707,594	530,970
Total financial instruments sold, but not yet purchased	\$735,984	\$555,654

Note 7.

Collateralised Agreements

The table below presents the company's collateralised agreements.

\$ in millions	As of	
	September 2016	December 2015
Resale agreements	\$127,711	\$110,318
Securities borrowed	62,042	53,385
Total collateralised agreements^{1,2}	\$189,753	\$163,703

1. Includes amounts due from group undertakings of \$122.31 billion and \$91.84 billion as of September 2016 and December 2015, respectively.
2. Includes balances due in more than one year of \$1.12 billion and \$1.87 billion as of September 2016 and December 2015, respectively.

Note 8.

Debtors

The table below presents the company's debtors balances. All debtors are due within one year of the balance sheet date, unless noted below.

\$ in millions	As of	
	September 2016	December 2015
Amounts due from broker/dealers and customers ¹	\$62,987	\$53,047
Amounts due from parent and group undertakings	11,128	6,768
Deferred tax	499	569
Other debtors	41	44
Prepayments and accrued income	74	60
Total debtors²	\$74,729	\$60,488

1. Includes balances due in more than one year relating to secured lending and/or prepaid commodity contracts of \$255 million and \$887 million as of September 2016 and December 2015, respectively.
2. Includes financial assets of \$74.19 billion and \$59.87 billion as of September 2016 and December 2015, respectively, and non-financial assets of \$543 million and \$614 million as of September 2016 and December 2015, respectively.

Note 9.

Collateralised Financings

The table below presents the company's collateralised financings.

\$ in millions	As of	
	September 2016	December 2015
Amounts falling due within one year		
Repurchase agreements	\$ 88,545	\$ 38,578
Securities loaned	52,585	77,807
Total	\$141,130	\$116,385

Amounts falling due after more than one year		
Repurchase agreements	\$ 4,779	\$ 3,502
Total	\$ 4,779	\$ 3,502
Total collateralised financings¹	\$145,909	\$119,887

1. Includes amounts due to group undertakings of \$103.46 billion and \$82.67 billion as of September 2016 and December 2015, respectively, of which \$103.25 billion and \$82.55 billion as of September 2016 and December 2015, respectively, are due within one year.

Notes to the Financial Statements (Unaudited)

Note 10.

Other Creditors

The table below presents the company's other creditors.

\$ in millions	As of	
	September 2016	December 2015
Amounts falling due within one year		
Bank loans	\$ 164	\$ 63
Overdrafts	87	4
Debt securities issued	13,187	13,850
Amounts due to broker/dealers and customers	61,450	54,544
Amounts due to parent and group		
undertakings – unsecured borrowings	24,859	27,195
Amounts due to parent and group		
undertakings – secured borrowings ¹	270	–
Amounts due to parent and group		
undertakings – other unsecured creditors	23,095	18,316
Accrual for management charges payable		
to parent and group undertakings ²	597	834
Corporation tax payable	154	134
Other taxes and social security costs	173	230
Other creditors and accruals	1,006	1,130
Total³	\$125,042	\$116,300
Amounts falling due after more than one year		
Bank loans	\$ –	\$ 100
Long-term subordinated loans	8,958	8,958
Debt securities issued	11,868	7,896
Amounts due to parent and group		
undertakings – unsecured borrowings	16,713	14,316
Amounts due to parent and group		
undertakings – other unsecured creditors	255	344
Accrual for management charges payable		
to parent and group undertakings ²	365	684
Total⁴	\$ 38,159	\$ 32,298
Total other creditors	\$163,201	\$148,598

- Secured borrowings are secured by securities which have been pledged as collateral.
- The accrual for management charges payable to parent and group undertakings is in respect of share-based compensation.
- Includes financial liabilities of \$124.72 billion and \$115.94 billion as of September 2016 and December 2015, respectively, and non-financial liabilities of \$327 million and \$364 million as of September 2016 and December 2015, respectively.
- All amounts falling due after more than one year are financial liabilities as of September 2016 and December 2015.

Intercompany Borrowings

Intercompany borrowings due within one year as of September 2016 decreased compared with December 2015, primarily reflecting a decrease in unsecured borrowings of \$2.34 billion due to borrowings of \$2.03 billion being extended to long-term, repayments of \$1.54 billion, partially offset by new proceeds of \$1.23 billion. This was partially offset by an increase in secured borrowings of \$270 million due to new proceeds of \$2.05 billion, partially offset by repayments of \$1.78 billion.

Intercompany borrowings due after more than one year as of September 2016 increased compared with December 2015, reflecting an increase in unsecured borrowings of \$2.40 billion due to new proceeds of \$14.85 billion, borrowings of \$2.03 billion being extended from short-term, partially offset by repayments of \$14.48 billion.

Debt Securities Issued

The table below presents the company's debt securities issued.

\$ in millions	As of	
	September 2016	December 2015
Amounts falling due within one year		
Unsecured debt securities with affiliates	\$ 2,231	\$ 1,778
Unsecured debt securities with external counterparties	8,260	9,722
Secured debt securities with affiliates ¹	1,026	493
Secured debt securities with external counterparties ¹	1,670	1,857
Total	\$13,187	\$13,850
Amounts falling due after more than one year		
Unsecured debt securities with affiliates	\$ 1,086	\$ 671
Unsecured debt securities with external counterparties	9,371	5,317
Secured debt securities with affiliates ¹	587	1,148
Secured debt securities with external counterparties ¹	824	760
Total	\$11,868	\$ 7,896
Total debt securities issued	\$25,055	\$21,746

- Secured debt securities are secured by securities which have been pledged as collateral. This pledged collateral is either recognised within "Financial instruments owned" or sourced through collateralised agreements.

The table below presents the maturity of the company's long-term debt securities issued.

\$ in millions	As of	
	September 2016	December 2015
Over one year and up to two years	\$ 1,670	\$2,554
Over two years and up to five years	3,976	2,074
Over five years	6,222	3,268
Total	\$11,868	\$7,896

Amounts due in more than five years relate to structured debt securities with maturities falling due between 2021 and 2056. Payments on these securities are typically referenced to underlying financial assets, which are predominately interest rate and equities-related.

Notes to the Financial Statements (Unaudited)

Long-Term Subordinated Loans

Long-term subordinated loans comprise long-term subordinated loans from parent and group undertakings, which are unsecured and carry interest at a margin over the U.S. Federal Reserve's federal funds rate. The margin is reset on a periodic basis to reflect changes in GS Group's weighted average cost of debt. Long-term subordinated loans constitute regulatory capital as approved by the PRA and are repayable subject to PRA approval and upon giving or receiving at least 5 years' notice to or from the parent or group undertaking.

Note 11.

Provisions for Liabilities

The table below presents the company's provisions for liabilities, which are in respect of certain legal claims made against the company and regulatory matters.

<i>\$ in millions</i>	2016
As of January 1	\$ -
Charge to the profit and loss account	25
As of September 30	\$25

Further details relating to the provisions have not been disclosed as permitted by IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', on the grounds that it would be seriously prejudicial to do so.

Note 12.

Share Capital

The table below presents the company's share capital.

Allotted, called up and fully paid	Ordinary shares	
	of \$1 each	<i>\$ in millions</i>
As of January 1, 2016	581,964,161	\$582
As of September 30, 2016	581,964,161	\$582

Note 13.

Cash and Cash Equivalents

The table below presents the company's cash and cash equivalents for the purpose of the statements of cash flows.

<i>\$ in millions</i>	As of September	
	2016	2015
Cash at bank and in hand	\$15,142	\$9,353
Overdrafts (see Note 10)	(87)	(2)
Total cash and cash equivalents	\$15,055	\$9,351

Note 14.

Reconciliation of Cash Flows From Operating Activities

The table below presents the company's reconciliation of cash flows from operating activities.

<i>\$ in millions</i>	Nine Months Ended September	
	2016	2015
Profit on ordinary activities before taxation	\$ 1,783	\$ 2,078
Adjustments for:		
Depreciation of tangible fixed assets	3	3
Charge for defined benefit plan	2	6
Foreign exchange losses	293	280
Share-based compensation expense/(credit)	(2)	65
Provisions for liabilities	25	2
Interest payable and similar charges	257	204
Cash generated before changes in operating assets and liabilities	2,361	2,638
Changes in operating assets		
Decrease/(increase) in financial instruments owned	(176,817)	24,442
Decrease/(increase) in collateralised agreements	(26,050)	22,836
Increase in debtors	(14,298)	(4,221)
Changes in operating assets ¹	(217,165)	43,057
Changes in operating liabilities		
Increase/(decrease) in financial instruments sold, but not yet purchased	180,330	(23,997)
Increase/(decrease) in collateralised financings	26,022	(6,800)
Increase/(decrease) in other creditors	14,542	(12,808)
Decrease in provisions for liabilities	-	(15)
Changes in operating liabilities ¹	220,894	(43,620)
Contributions paid to defined benefit plan	(8)	(28)
Cash generated from operations	\$ 6,082	\$ 2,047

1. Changes in operating assets and changes in operating liabilities for the nine month ended September 2015 have been reduced by \$16.35 billion as a result of the retrospective change in accounting policy for regular-way purchases and sales of non-derivative financial instruments from trade date to settlement date as of December 31, 2015. There was no change to the total cash generated from operations.

Cash generated from operations includes interest paid of \$1.48 billion and \$1.73 billion for the nine months ended September 2016 and September 2015, respectively, and interest received of \$1.40 billion and \$1.74 billion for the nine months ended September 2016 and September 2015, respectively.

Notes to the Financial Statements (Unaudited)

Note 15.

Financial Commitments and Contingencies

Commitments and Contingencies

The table below presents the company's commitments and contingencies.

<i>\$ in millions</i>	As of	
	September 2016	December 2015
Contingent and forward starting resale and securities borrowing agreements	\$55,705	\$29,276
Forward starting repurchase and secured lending agreements	17,823	11,483
Other	3,699	4,137
Total	\$77,227	\$44,896

The company enters into resale and securities borrowing agreements and repurchase and secured lending agreements that settle at a future date, generally within three business days. The company also enters into commitments to provide contingent financing to its clients and counterparties through resale agreements. The company's funding of these commitments depends on the satisfaction of all contractual conditions to the resale agreement and these commitments can expire unused.

Other commitments primarily relate to collateral commitments and commitments to extend credit.

In addition, there are registered charges on the company's assets which have arisen in the ordinary course of business.

Leases

The company leases certain buildings under long-term lease agreements. Under these lease agreements, which are subject to renegotiation at various intervals specified in the leases, the company pays all insurance, maintenance and repairs of these properties.

Legal Proceedings

The company is involved in a number of judicial, regulatory and arbitration proceedings (including those described below) concerning matters arising in connection with the conduct of the company's business and where appropriate provisions have been recorded (see Note 11).

Mortgage-Related Matters. Various alleged purchasers of, and counterparties involved in transactions relating to, mortgage pass-through certificates, collateralised debt obligations and other mortgage-related products (including IKB Deutsche Industriebank AG) have filed complaints in the United States against the company and certain of its affiliates, generally alleging that the offering documents for the securities that they purchased contained untrue statements of material fact and material omissions and generally seeking rescission and/or damages. Certain of these complaints allege fraud and seek punitive damages.

Libya-Related Litigation. GSI is the defendant in an action filed on January 21, 2014 with the High Court of Justice in London by the Libyan Investment Authority (LIA), relating to nine derivative transactions between the plaintiff and GSI and seeking, among other things, rescission of the transactions and unspecified equitable compensation and damages exceeding \$1 billion. On October 14, 2016, the court ruled in favour of GSI on all counts. In doing so, the court dismissed the LIA's claims that the transactions were (i) the result of undue influence by GSI over an unsophisticated LIA, in part noting (a) that the LIA had 'greatly exaggerated' the extent to which its personnel were 'naïve and unworldly' and (b) the dozens of transactions and billions of dollars of investments that the LIA had entered into with other financial institutions, hedge funds and private equity firms, and (ii) unconscionable bargains, finding no grounds for concluding that the level of profits earned by GSI on the transactions was excessive.

Interest Rate Swap Antitrust Litigation. GSI is among the defendants named in putative antitrust class actions relating to the trading of interest rate swaps, filed beginning in November 2015 and consolidated in the U.S. District Court for the Southern District of New York. The consolidated amended complaint filed on September 9, 2016 generally alleges a conspiracy among the defendants since at least January 1, 2007 to preclude exchange trading of interest rate swaps. The complaints seek declaratory and injunctive relief as well as treble damages in an unspecified amount.

Notes to the Financial Statements (Unaudited)

GSI is among the defendants named in antitrust actions relating to the trading of interest rate swaps filed in the U.S. District Court for the Southern District of New York beginning in April 2016 by two operators of swap execution facilities and certain of their affiliates. These actions have been consolidated with the class action described above for pretrial proceedings. The consolidated amended complaint filed on September 9, 2016 generally asserts claims under federal and state antitrust laws and state common law in connection with an alleged conspiracy among the defendants to preclude trading of interest rate swaps on the plaintiffs' respective swap execution facilities and seek declaratory and injunctive relief as well as treble damages in an unspecified amount.

Commodities-Related Litigation. GSI is among the defendants named in a number of putative class actions filed beginning on August 1, 2013 and consolidated in the U.S. District Court for the Southern District of New York. The complaints generally allege violations of federal antitrust laws and state laws in connection with the storage of aluminium and aluminium trading. The complaints seek declaratory, injunctive and other equitable relief as well as unspecified monetary damages, including treble damages. On August 29, 2014, the court granted the Goldman Sachs defendants' motion to dismiss. Certain plaintiffs appealed on September 24, 2014, and the U.S. Court of Appeals for the Second Circuit (Second Circuit) affirmed the district court's decision on August 9, 2016. The remaining plaintiffs filed amended complaints on April 9, 2015, and on October 5, 2016, the district court dismissed their claims based on the Second Circuit's decision.

GSI is among the defendants named in putative class actions relating to trading in platinum and palladium, filed beginning on November 25, 2014 and most recently amended on July 27, 2015, in the U.S. District Court for the Southern District of New York. The complaints generally allege that the defendants violated federal antitrust laws and the Commodity Exchange Act in connection with an alleged conspiracy to manipulate a benchmark for physical platinum and palladium prices and seek declaratory and injunctive relief as well as treble damages in an unspecified amount. On September 21, 2015, the defendants moved to dismiss.

Regulatory Investigations and Reviews and Related Litigation. Group Inc. and certain of its affiliates, including GSI, are subject to a number of other investigations and reviews by, and in some cases have received subpoenas and requests for documents and information from, various governmental and regulatory bodies and self-regulatory organisations and litigation relating to various matters relating to the GS Group's businesses and operations, including:

- The 2008 financial crisis;
- The public offering process;

- Investment management and financial advisory services;
- Conflicts of interest;
- The offering, auction, sales, trading and clearance of corporate and government securities, currencies, commodities and other financial products and related sales and other communications and activities, including compliance with short sale rules, algorithmic, high-frequency and quantitative trading, futures trading, options trading, when-issued trading, transaction reporting, technology systems and controls, securities lending practices, trading and clearance of credit derivative instruments and interest rate swaps, commodities activities and metals storage, private placement practices, allocations of and trading in securities, and trading activities and communications in connection with the establishment of benchmark rates, such as currency rates and the ISDAFIX benchmark rates;
- Compliance with the U.K. Bribery Act and the U.S. Foreign Corrupt Practices Act;
- Hiring and compensation practices;
- System of risk management and controls; and
- Insider trading, the potential misuse and dissemination of material non-public information regarding corporate and governmental developments and the effectiveness of insider trading controls and information barriers.

In addition, investigations, reviews and litigation involving the company's affiliates and such affiliates' businesses and operations, including various matters referred to above but also other matters, may have an impact on the company's businesses and operations.

Note 16.

Financial Risk Management and Capital Management

Certain disclosures in relation to the company's financial risk management and capital management have been presented alongside other risk management and regulatory information in Part I of this financial report.

Notes to the Financial Statements (Unaudited)

Note 17.

Financial Assets and Financial Liabilities

Financial Assets and Financial Liabilities by Category

The tables below present the carrying value of the company's financial assets and financial liabilities by category.

\$ in millions	Financial Assets			Total
	Held for trading	Designated at fair value	Loans and receivables	
As of September 2016				
Financial instruments owned	\$792,871	\$ -	\$ -	\$ 792,871
Collateralised agreements	-	150,324	39,429	189,753
Debtors	-	1,629	72,557	74,186
Cash at bank and in hand	-	-	15,142	15,142
Total financial assets	\$792,871	\$151,953	\$127,128	\$1,071,952

As of December 2015				
Financial instruments owned	\$616,054	\$ -	\$ -	\$ 616,054
Collateralised agreements	-	132,933	30,770	163,703
Debtors	-	1,368	58,506	59,874
Cash at bank and in hand	-	-	9,974	9,974
Total financial assets	\$616,054	\$134,301	\$ 99,250	\$ 849,605

\$ in millions	Financial Liabilities			Total
	Held for trading	Designated at fair value	Amortised cost	
As of September 2016				
Amounts falling due within one year				
Financial instruments sold, but not yet purchased	\$735,984	\$ -	\$ -	\$ 735,984
Collateralised financings	-	100,471	40,659	141,130
Other creditors ¹	-	14,326	110,389	124,715
Total	735,984	114,797	151,048	1,001,829
Amounts falling due after more than one year				
Collateralised financings	-	4,779	-	4,779
Other creditors ¹	-	22,111	16,048	38,159
Total	-	26,890	16,048	42,938
Total financial liabilities	\$735,984	\$141,687	\$167,096	\$1,044,767

As of December 2015				
Amounts falling due within one year				
Financial instruments sold, but not yet purchased	\$555,654	\$ -	\$ -	\$ 555,654
Collateralised financings	-	72,913	43,472	116,385
Other creditors ¹	-	14,281	101,655	115,936
Total	555,654	87,194	145,127	787,975

Amounts falling due after more than one year				
Collateralised financings	-	3,502	-	3,502
Other creditors ¹	-	19,928	12,370	32,298
Total	-	23,430	12,370	35,800
Total financial liabilities	\$555,654	\$110,624	\$157,497	\$ 823,775

- Certain of the company's intercompany unsecured borrowings that have been designated at fair value were previously disclosed as measured at amortised cost in the table above. Comparatives have been restated to move \$87 million of other creditors falling due within one year and \$12.48 billion of other creditors falling due after more than one year from amortised cost to designated at fair value. These financial instruments have been presented in level 2 in the fair value hierarchy disclosure on page 41.

Fair Value Hierarchy

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs. The company measures certain financial assets and financial liabilities as a portfolio (i.e., based on its net exposure to market and/or credit risks).

U.K. GAAP has a three-level fair value hierarchy for disclosure of fair value measurements. The fair value hierarchy prioritises inputs to the valuation techniques used to measure fair value, giving the highest priority to level 1 inputs and the lowest priority to level 3 inputs. A financial asset or financial liability's level in the fair value hierarchy is based on the lowest level of input that is significant to its fair value measurement.

The fair value hierarchy is as follows:

Level 1. Inputs are unadjusted quoted prices in active markets to which the company had access at the measurement date for identical, unrestricted assets or liabilities.

Level 2. Inputs to valuation techniques are observable, either directly or indirectly.

Level 3. One or more inputs to valuation techniques are significant and unobservable.

The fair values for substantially all of the company's financial assets and financial liabilities that are fair valued on a recurring basis are based on observable prices and inputs and are classified in levels 1 and 2 of the fair value hierarchy. Certain level 2 and level 3 financial assets and financial liabilities may require appropriate valuation adjustments that a market participant would require to arrive at fair value for factors such as counterparty and GS Group's credit quality, funding risk, transfer restrictions, liquidity and bid/offer spreads. Valuation adjustments are generally based on market evidence.

Notes to the Financial Statements (Unaudited)

Valuation Techniques and Significant Inputs

Cash Instruments. Cash instruments include government and agency obligations, bank loans and bridge loans, corporate and other debt obligations, equities and convertible debentures, and other non-derivative financial instruments owned and financial instruments sold, but not yet purchased. Valuation techniques and significant inputs for each level of the fair value hierarchy include:

Level 1 Cash Instruments

Level 1 cash instruments are valued using quoted prices for identical unrestricted instruments in active markets. The company defines active markets for equity instruments based on the average daily trading volume both in absolute terms and relative to the market capitalisation for the instrument. The company defines active markets for debt instruments based on both the average daily trading volume and the number of days with trading activity.

Level 2 Cash Instruments

Level 2 cash instruments can be verified to quoted prices, recent trading activity for identical or similar instruments, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. Consideration is given to the nature of the quotations (e.g., indicative or firm) and the relationship of recent market activity to the prices provided from alternative pricing sources.

Valuation adjustments are typically made to level 2 cash instruments (i) if the cash instrument is subject to transfer restrictions and/or (ii) for other premiums and liquidity discounts that a market participant would require to arrive at fair value. Valuation adjustments are generally based on market evidence.

Level 3 Cash Instruments

Level 3 cash instruments have one or more significant valuation inputs that are not observable. Absent evidence to the contrary, level 3 cash instruments are initially valued at transaction price, which is considered to be the best initial estimate of fair value. Subsequently, the company uses other methodologies to determine fair value, which vary based on the type of instrument. Valuation inputs and assumptions are changed when corroborated by substantive observable evidence, including values realised on sales of financial assets.

Valuation techniques of level 3 cash instruments vary by instrument, but are generally based on discounted cash flow techniques. The valuation techniques and the nature of significant inputs used to determine the fair values of each type of level 3 cash instrument are described below.

- **Mortgages and Loans (Including Mortgages and Other Asset-Backed Loans and Securities and Bank Loans and Bridge Loans).** Significant inputs are generally determined based on relative value analyses and include:
 - Market yields implied by transactions of similar or related assets;
 - Current levels and changes in market indices such as the iTraxx, CDX and LCDX (indices that track the performance of corporate credit and loans, respectively);
 - Current performance of the borrower or loan collateral and recovery assumptions if a default occurs; and
 - Timing of expected future cash flows (duration) which, in certain cases, may incorporate the impact of other unobservable inputs (e.g., prepayment speeds).
- **Equities and Convertible Debentures (Including Private Equity Investments).** Recent third-party completed or pending transactions (e.g., merger proposals, tender offers, debt restructurings) are considered to be the best evidence for any change in fair value. When these are not available, the following valuation methodologies are used, as appropriate:
 - Industry multiples and public comparables;
 - Transactions in similar instruments; and
 - Discounted cash flow techniques.
- **Other Cash Instruments.** Other cash instruments consists of corporate and other debt obligations, commercial paper, certificates of deposit, time deposits and other money market instruments and government agency obligations. Significant inputs are generally determined based on relative value analyses, which incorporate comparisons both to prices of credit default swaps that reference the same or similar underlying instrument or entity and to other debt instruments for the same issuer for which observable prices or broker quotations are available. Significant inputs include:
 - Market yields implied by transactions of similar or related assets;
 - Current levels and changes in market indices such as the iTraxx, CDX and LCDX;
 - Current performance of the borrower or loan collateral and recovery assumptions if a default occurs; and
 - Maturity and coupon profile of the instrument.

Notes to the Financial Statements (Unaudited)

Derivative Instruments. Derivatives may be traded on an exchange (exchange-traded) or they may be privately negotiated contracts, which are usually referred to as OTC derivatives. Certain of the company's OTC derivatives are cleared and settled through central clearing counterparties (OTC-cleared), while others are bilateral contracts between two counterparties (bilateral OTC).

The company's level 2 and level 3 derivatives are valued using derivative pricing models (e.g., discounted cash flow models, correlation models, and models that incorporate option pricing methodologies, such as Monte Carlo simulations). Price transparency of derivatives can generally be characterised by product type, as described below.

- **Interest Rate.** In general, the key inputs used to value interest rate derivatives are transparent, even for most long-dated contracts. Interest rate swaps and options denominated in the currencies of leading industrialised nations are characterised by high trading volumes and tight bid/offer spreads. Interest rate derivatives that reference indices, such as an inflation index, or the shape of the yield curve (e.g., 10-year swap rate vs. 2-year swap rate) are more complex, but the key inputs are generally observable.
- **Credit.** Price transparency for credit default swaps, including both single names and baskets of credits, varies by market and underlying reference entity or obligation. Credit default swaps that reference indices, large corporates and major sovereigns generally exhibit the most price transparency. For credit default swaps with other underliers, price transparency varies based on credit rating, the cost of borrowing the underlying reference obligations, and the availability of the underlying reference obligations for delivery upon the default of the issuer. Credit default swaps that reference loans, asset-backed securities and emerging market debt instruments tend to have less price transparency than those that reference corporate bonds. In addition, more complex credit derivatives, such as those sensitive to the correlation between two or more underlying reference obligations, generally have less price transparency.
- **Currency.** Prices for currency derivatives based on the exchange rates of leading industrialised nations, including those with longer tenors, are generally transparent. The primary difference between the price transparency of developed and emerging market currency derivatives is that emerging markets tend to be observable for contracts with shorter tenors.

- **Equity.** Price transparency for equity derivatives varies by market and underlier. Options on indices and the common stock of corporates included in major equity indices exhibit the most price transparency. Equity derivatives generally have observable market prices, except for contracts with long tenors or reference prices that differ significantly from current market prices. More complex equity derivatives, such as those sensitive to the correlation between two or more individual stocks, generally have less price transparency.

Liquidity is essential to observability of all product types. If transaction volumes decline, previously transparent prices and other inputs may become unobservable. Conversely, even highly structured products may at times have trading volumes large enough to provide observability of prices and other inputs.

Level 1 Derivatives

Level 1 derivatives include short-term contracts for future delivery of securities when the underlying security is a level 1 instrument, and exchange-traded derivatives if they are actively traded and are valued at their quoted market price.

Level 2 Derivatives

Level 2 derivatives include OTC derivatives for which all significant valuation inputs are corroborated by market evidence and exchange-traded derivatives that are not actively traded and/or that are valued using models that calibrate to market-clearing levels of OTC derivatives. In evaluating the significance of a valuation input, the company considers, among other factors, a portfolio's net risk exposure to that input.

The selection of a particular model to value a derivative depends on the contractual terms of and specific risks inherent in the instrument, as well as the availability of pricing information in the market. For derivatives that trade in liquid markets, model selection does not involve significant management judgement because outputs of models can be calibrated to market-clearing levels.

Valuation models require a variety of inputs, such as contractual terms, market prices, yield curves, discount rates (including those derived from interest rates on collateral received and posted as specified in credit support agreements for collateralised derivatives), credit curves, measures of volatility and correlations of such inputs. Significant inputs to the valuations of level 2 derivatives can be verified to market transactions, broker or dealer quotations or other alternative pricing sources with reasonable levels of price transparency. Consideration is given to the nature of the quotations (e.g., indicative or firm) and the relationship of recent market activity to the prices provided from alternative pricing sources.

Notes to the Financial Statements (Unaudited)

Level 3 Derivatives

Level 3 derivatives are valued using models which utilise observable level 1 and/or level 2 inputs, as well as unobservable level 3 inputs. Unobservable inputs include certain correlations as well as credit spreads and equity volatility inputs.

Subsequent to the initial valuation of a level 3 derivative, the company updates the level 1 and level 2 inputs to reflect observable market changes and any resulting gains and losses are recorded in level 3. Level 3 inputs are changed when corroborated by evidence such as similar market transactions, third-party pricing services and/or broker or dealer quotations or other empirical market data. In circumstances where the company cannot verify the model value by reference to market transactions, it is possible that a different valuation model could produce a materially different estimate of fair value. See below for further information about significant unobservable inputs used in the valuation of level 3 derivatives.

Where there is a difference between the initial transaction price and the fair value calculated by internal models, a gain or loss is recognised after initial recognition only to the extent that it arises from a change in a factor (including time) that market participants would consider in setting a price.

Valuation Adjustments

Valuation adjustments are integral to determining the fair value of derivative portfolios and are used to adjust the mid-market valuations produced by derivative pricing models to the appropriate exit price valuation. These adjustments incorporate bid/offer spreads, the cost of liquidity, credit valuation adjustments and funding valuation adjustments, which account for the credit and funding risk inherent in the uncollateralised portion of derivative portfolios. The company also makes funding valuation adjustments to collateralised derivatives where the terms of the agreement do not permit the company to deliver or repledge collateral received. Market-based inputs are generally used when calibrating valuation adjustments to market-clearing levels.

In addition, for derivatives that include significant unobservable inputs, the company makes model or exit price adjustments to account for the valuation uncertainty present in the transaction.

Other Financial Assets and Financial Liabilities.

Valuation techniques and significant inputs of other financial assets and financial liabilities include:

- **Collateralised Agreements and Collateralised Financings.** The significant inputs to the valuation of resale and repurchase agreements and securities borrowed and loaned are funding spreads, the amount and timing of expected future cash flows and interest rates.
- **Debtors.** Debtors measured at fair value are primarily comprised of secured lending and prepaid commodity contracts. The significant inputs to the valuation of such receivables are commodity prices, interest rates, the amount and timing of expected future cash flows and funding spreads.
- **Other Creditors.** Other creditors primarily comprise hybrid financial instruments and prepaid commodity contracts.

The significant inputs to the valuation of secured other creditors measured at fair value are the amount and timing of expected future cash flows, interest rates, funding spreads, the fair value of the collateral delivered by the company (which is determined using the amount and timing of expected future cash flows, market prices, market yields and recovery assumptions) and the frequency of additional collateral calls.

The significant inputs to the valuation of unsecured other creditors measured at fair value are the amount and timing of expected future cash flows, interest rates, the credit spreads of GS Group, as well as commodity prices in the case of prepaid commodity contracts. The inputs used to value the embedded derivative component of hybrid financial instruments are consistent with the inputs used to value the company's other derivative instruments.

Notes to the Financial Statements (Unaudited)

Fair Value of Financial Assets and Financial Liabilities by Level

The tables below present, by level within the fair value hierarchy, financial assets and financial liabilities measured at fair value on a recurring basis.

\$ in millions	Financial Assets and Financial Liabilities at Fair Value as of September 2016			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Cash instruments	\$51,427	\$ 19,791	\$ 1,244	\$ 72,462
Derivative instruments	7	715,583	4,819	720,409
Financial instruments owned	51,434	735,374	6,063	792,871
Collateralised agreements	–	150,324	–	150,324
Debtors	–	1,629	–	1,629
Total financial assets	\$51,434	\$887,327	\$ 6,063	\$944,824
Financial Liabilities				
Amounts falling due within one year				
Cash instruments	\$25,392	\$ 2,993	\$ 5	\$ 28,390
Derivative instruments	20	705,264	2,310	707,594
Financial instruments sold, but not yet purchased	25,412	708,257	2,315	735,984
Collateralised financings	–	100,396	75	100,471
Other creditors	–	10,908	3,418	14,326
Total	25,412	819,561	5,808	850,781
Amounts falling due after more than one year				
Collateralised financings	–	4,779	–	4,779
Other creditors	–	17,566	4,545	22,111
Total	–	22,345	4,545	26,890
Total financial liabilities	\$25,412	\$841,906	\$10,353	\$877,671
Net derivative instruments	\$ (13)	\$ 10,319	\$ 2,509	\$ 12,815

\$ in millions	Financial Assets and Financial Liabilities at Fair Value as of December 2015			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Cash instruments	\$48,198	\$ 17,501	\$1,238	\$ 66,937
Derivative instruments	14	544,300	4,803	549,117
Financial instruments owned	48,212	561,801	6,041	616,054
Collateralised agreements	–	132,933	–	132,933
Debtors	–	1,368	–	1,368
Total financial assets	\$48,212	\$696,102	\$6,041	\$750,355
Financial Liabilities				
Amounts falling due within one year				
Cash instruments	\$21,038	\$ 3,584	\$ 62	\$ 24,684
Derivative instruments	28	528,277	2,665	530,970
Financial instruments sold, but not yet purchased	21,066	531,861	2,727	555,654
Collateralised financings	–	72,842	71	72,913
Other creditors ¹	–	10,802	3,479	14,281
Total	21,066	615,505	6,277	642,848
Amounts falling due after more than one year				
Collateralised financings	–	3,502	–	3,502
Other creditors ¹	–	17,804	2,124	19,928
Total	–	21,306	2,124	23,430
Total financial liabilities	\$21,066	\$636,811	\$8,401	\$666,278
Net derivative instruments	\$ (14)	\$ 16,023	\$2,138	\$ 18,147

1. As of December 2015, level 2 other creditors falling due within one year and other creditors falling due after more than one year have been increased by \$87 million and \$12.48 billion, respectively. See page 37 for further details.

Notes to the Financial Statements (Unaudited)

Significant Unobservable Inputs Used in Level 3 Fair Value Measurements

Cash Instruments. As of both September 2016 and December 2015, the company had level 3 asset cash instruments of \$1.24 billion. Level 3 liability cash instruments were not material. The table below presents the amount of level 3 assets, and ranges and weighted averages of significant unobservable inputs used to value the company's level 3 asset cash instruments.

<i>\$ in millions</i>	Level 3 Assets and Range of Significant Unobservable Inputs (Weighted Average) as of	
	September 2016	December 2015
Mortgages and loans	\$454	\$642
Yield	1.3% to 19.6% (5.2%)	3.2% to 19.7% (6.2%)
Recovery rate	25.0% to 95.0% (45.7%)	18.0% to 70.0% (33.7%)
Duration (years)	1.0 to 16.6 (5.3)	0.7 to 11.8 (5.4)
Equities and convertible debentures	\$199	\$152
Multiples	0.9x to 5.5x (1.7x)	0.9x to 14.5x (2.4x)
Discount rate/yield	N/A	8.6% to 13.3% (11.4%)
Other cash instruments	\$591	\$444
Yield	1.6% to 16.6% (7.4%)	2.9% to 14.3% (5.7%)
Recovery rate	0.0% to 86.0% (58.9%)	0.0% to 70.0% (58.8%)
Duration (years)	0.3 to 6.8 (3.2)	1.9 to 5.5 (3.1)

In the table above:

- Ranges represent the significant unobservable inputs that were used in the valuation of each type of cash instrument.
- Weighted averages are calculated by weighting each input by the relative fair value of the cash instruments.
- The ranges and weighted averages of these inputs are not representative of the appropriate inputs to use when calculating the fair value of any one cash instrument. For example, the highest yield for mortgages and loans is appropriate for valuing a specific loan but may not be appropriate for valuing any other loan. Accordingly, the ranges of inputs do not represent uncertainty in, or possible ranges of, fair value measurements of the company's level 3 cash instruments.
- Increases in yield, discount rate or duration used in the valuation of the company's level 3 cash instruments would result in a lower fair value measurement, while increases in recovery rate, basis or multiples would result in a higher fair value measurement. Due to the distinctive nature of each of the company's level 3 cash instruments, the interrelationship of inputs is not necessarily uniform within each product type.
- Mortgages and loans include mortgages and asset-backed loans and securities and bank loans and bridge loans.
- Equities and convertible debentures include private equity investments.
- Mortgages and other asset-backed loans and securities and bank loans and bridge loans are valued using discounted cash flows, and equities and convertible debentures are valued using market comparables and discounted cash flows.
- The fair value of any one instrument may be determined using multiple valuation techniques. For example, market comparables and discounted cash flows may be used together to determine fair value. Therefore, the level 3 balance encompasses both of these techniques.

Notes to the Financial Statements (Unaudited)

Derivative Instruments. As of September 2016 and December 2015, the company had net level 3 derivative instruments of \$2.51 billion and \$2.14 billion, respectively. The table below presents the amount of net level 3 derivative instruments, and the ranges, averages and medians of significant unobservable inputs used to value the company's credit and equities derivative instruments. As of September 2016 and December 2015, the company had net level 3 financial instruments of \$20 million and \$136 million, respectively, relating to interest rate, currencies and commodities derivatives for which the range of significant unobservable inputs has not been disclosed as the amounts are not material.

<i>\$ in millions</i>	Net Level 3 Derivative Instruments and Range of Significant Unobservable Inputs (Average / Median) as of	
	September 2016	December 2015
Credit	\$2,739	\$2,278
Correlation	29% to 92% (60% / 59%)	46% to 99% (68% / 66%)
Credit Spreads (bps)	1 to 960 (118 / 67)	1 to 952 (174 / 131)
Upfront Credit Points	0 to 94 (21 / 11)	0 to 88 (24 / 20)
Recovery Rates	1% to 41% (29% / 30%)	2% to 55% (34% / 40%)
Equities	\$(250)	\$(276)
Correlation	(49)% to 87% (43% / 47%)	(65)% to 94% (38% / 45%)
Volatility	5% to 69% (25% / 25%)	14% to 59% (26% / 26%)

In the table above:

- Net derivative assets are shown as positive amounts and net derivative liabilities are shown as negative amounts.
- Ranges represent the significant unobservable inputs that were used in the valuation of each type of derivative.
- Averages represent the arithmetic average of the inputs and are not weighted by the relative fair value or notional of the respective financial instruments. An average greater than the median indicates that the majority of inputs are below the average.
- The ranges, averages and medians of these inputs are not representative of the appropriate inputs to use when calculating the fair value of any one derivative. For example, the highest correlation for credit derivatives is appropriate for valuing a specific credit derivative but may not be appropriate for valuing any other credit derivative. Accordingly, the ranges of inputs do not represent uncertainty in, or possible ranges of, fair value measurements of the company's level 3 derivatives.
- Credit derivatives are valued using option pricing, correlation and discounted cash flow models, and equities derivatives are valued using option pricing models.
- The fair value of any one instrument may be determined using multiple valuation techniques. For example, option pricing models and discounted cash flows models are typically used together to determine fair value. Therefore, the level 3 balance encompasses both of these techniques.
- Correlation within equities includes cross-product correlation.

Notes to the Financial Statements (Unaudited)

Range of Significant Unobservable Inputs

The following is information about the ranges of significant unobservable inputs used to value the company's level 3 derivative instruments:

- **Correlation.** Ranges for correlation cover a variety of underliers both within one market (e.g., equity index and equity single stock names) and across markets (e.g., correlation of an equity index and a foreign exchange rate), as well as across regions.
- **Volatility.** Ranges for volatility cover numerous underliers across a variety of markets, maturities and strike prices. For example, volatility of equity indices is generally lower than volatility of single stocks.
- **Credit spreads, upfront credit points and recovery rates.** The ranges for credit spreads, upfront credit points and recovery rates cover a variety of underliers (index and single names), regions, sectors, maturities and credit qualities (high-yield and investment-grade). The broad range of this population gives rise to the width of the ranges of significant unobservable inputs.

Sensitivity of Fair Value Measurement to Changes in Significant Unobservable Inputs

The following is a description of the directional sensitivity of the company's level 3 fair value measurements to changes in significant unobservable inputs, in isolation:

- **Correlation.** In general, for contracts where the holder benefits from the consistent directional performance of the underlying asset or index prices (e.g., interest rates, credit spreads, foreign exchange rates, inflation rates and equity prices), an increase in correlation results in a higher fair value measurement.
- **Volatility.** In general, for purchased options, an increase in volatility results in a higher fair value measurement.
- **Credit spreads, upfront credit points and recovery rates.** In general, the fair value of purchased credit protection increases as credit spreads or upfront credit points increase or recovery rates decrease. Credit spreads, upfront credit points and recovery rates are strongly related to distinctive risk factors of the underlying reference obligations. These include reference entity-specific factors such as leverage, volatility and industry; market-based risk factors, such as borrowing costs or liquidity of the underlying reference obligation; and macroeconomic conditions.

Due to the distinctive nature of each of the company's level 3 derivatives, the interrelationship of inputs is not necessarily uniform within each product type.

Other Financial Assets and Financial Liabilities. Significant unobservable inputs of other financial assets and financial liabilities include:

- **Collateralised Agreements and Collateralised Financings.** As of both September 2016 and December 2015, the company had no level 3 resale agreements, securities borrowed or securities loaned. As of both September 2016 and December 2015, the company's level 3 repurchase agreements were not material.
- **Debtors.** As of both September 2016 and December 2015, the company's level 3 debtors were nil.
- **Other Creditors.** As of both September 2016 and December 2015, the significant unobservable inputs used to value the company's secured level 3 other creditors have been incorporated in the company's cash instruments disclosures related to unobservable inputs, within other cash instruments. See "Cash Instruments" above.

As of both September 2016 and December 2015, substantially all of the company's unsecured level 3 other creditors are hybrid financial instruments. As the significant unobservable inputs used to value hybrid financial instruments primarily relate to the embedded derivative component of these borrowings, these inputs are incorporated in the company's derivative disclosures related to unobservable inputs. See "Derivative Instruments" above.

Transfers Between Level 1 and Level 2 of the Fair Value Hierarchy

During the nine months ended September 2016 and the year ended December 2015, there were no significant transfers between level 1 and level 2 financial assets and financial liabilities measured at fair value on a recurring basis.

Notes to the Financial Statements (Unaudited)

Level 3 Rollforward

The table below presents the changes in fair value for all level 3 financial assets and financial liabilities measured at fair value on a recurring basis. Gains and losses arising on level 3 assets are recognised within net revenues in the profit and loss account. In the table below:

- If a financial asset or financial liability was transferred to level 3 during a reporting period, its entire gain or loss for the period is included in level 3. For level 3 financial assets, increases are shown as positive amounts, while decreases are shown as negative amounts. For level 3 financial liabilities, increases are shown as negative amounts, while decreases are shown as positive amounts.
- Transfers between levels are recognised at the beginning of the reporting period in which they occur. Accordingly, the tables do not include gains or losses for level 3 financial assets and financial liabilities that were transferred out of level 3 prior to the end of the period.

- Level 3 financial assets and financial liabilities are frequently economically hedged with level 1 and level 2 financial assets and financial liabilities. Accordingly, level 3 gains or losses that are reported in the table below for a particular class of financial asset or financial liability can be partially offset by gains or losses attributable to level 1 or level 2 in the same class of financial asset or financial liability or gains or losses attributable to level 1, level 2 or level 3 in a different class of financial asset or financial liability. As a result, gains or losses included in the level 3 rollforward below do not necessarily represent the overall impact on the company's results of operations, liquidity or capital resources.

<i>\$ in millions</i>	Level 3 Financial Assets and Financial Liabilities at Fair Value							
	Balance, beginning of period	Gains/ (losses)	Purchases	Sales	Settlements	Transfers into level 3	Transfers out of level 3	Balance, end of period
Nine Months Ended September 2016								
Financial instruments owned	\$ 6,041	\$ 1,367	\$ 332	\$ (337)	\$ (1,163)	\$ 701	\$ (878)	\$ 6,063
Total level 3 financial assets	\$ 6,041	\$ 1,367	\$ 332	\$ (337)	\$ (1,163)	\$ 701	\$ (878)	\$ 6,063
Financial instruments sold, but not yet purchased	\$ (2,727)	\$ (445)	\$ 14	\$ (160)	\$ 731	\$ (172)	\$ 444	\$ (2,315)
Collateralised financings	(71)	(6)	-	-	2	-	-	(75)
Other creditors	(5,603)	(26)	-	(4,222)	1,650	(340)	578	(7,963)
Total level 3 financial liabilities	\$ (8,401)	\$ (477)	\$ 14	\$ (4,382)	\$ 2,383	\$ (512)	\$ 1,022	\$ (10,353)
Year Ended December 2015								
Financial instruments owned	\$ 7,793	\$ 646	\$ 680	\$ (401)	\$ (1,399)	\$ 934	\$ (2,212)	\$ 6,041
Total level 3 financial assets	\$ 7,793	\$ 646	\$ 680	\$ (401)	\$ (1,399)	\$ 934	\$ (2,212)	\$ 6,041
Financial instruments sold, but not yet purchased	\$ (2,718)	\$ (8)	\$ 99	\$ (383)	\$ 324	\$ (424)	\$ 383	\$ (2,727)
Collateralised financings	(124)	(2)	-	-	55	-	-	(71)
Other creditors	(3,580)	538	-	(4,811)	2,422	(549)	377	(5,603)
Total level 3 financial liabilities	\$ (6,422)	\$ 528	\$ 99	\$ (5,194)	\$ 2,801	\$ (973)	\$ 760	\$ (8,401)

Transfers Between Level 2 and Level 3 of the Fair Value Hierarchy

Nine Months Ended September 2016. Transfers into level 3 primarily reflected transfers of certain credit products from level 2, principally due to unobservable credit spread and yield inputs becoming significant to the valuation of these instruments and transfers of certain equity derivatives from level 2, principally due to unobservable volatility and correlation inputs becoming significant to the valuation of these derivatives. Transfers out of level 3 primarily reflected transfers of certain credit derivatives to level 2, principally due to unobservable credit spread inputs no longer being significant to the net risk of certain portfolios, transfers of certain equity derivatives to level 2, principally due to unobservable volatility and correlation inputs no longer being significant to the net risk of certain portfolios and transfers of certain interest rate derivatives to level 2, due to previously unobservable long-dated interest rate bases becoming observable.

Year Ended December 2015. Transfers into level 3 primarily reflected transfers of certain credit derivatives from level 2, principally due to unobservable credit spread inputs becoming significant to the valuation of these instruments and the transfers of certain equity derivatives from level 2, principally due to unobservable volatility and correlation inputs becoming significant to the valuation of these derivatives.

Transfers out of level 3 primarily reflected transfers of certain credit derivatives to level 2, principally due to unobservable credit spread inputs no longer being significant to the net risk of certain portfolios.

Notes to the Financial Statements (Unaudited)

Fair Value Financial Assets and Financial Liabilities Valued Using Techniques That Incorporate Unobservable Inputs

The fair value of financial assets and financial liabilities may be determined in whole or part using a valuation technique based on assumptions that are not supported by prices from observable current market transactions in the same instrument or based on available observable market data and changing these assumptions will change the resultant estimate of fair value. The potential impact of using reasonable possible alternative assumptions for the valuations, including significant unobservable inputs, has been quantified as of September 2016 and December 2015, as approximately \$356 million and \$261 million, respectively, for favourable changes and \$299 million and \$238 million, respectively, for unfavourable changes. In determining reasonably possible alternative unfavourable assumptions, a detailed business and position level review has been performed to identify and quantify instances where potential uncertainty exists. This has taken into account the positions' fair value as compared to the range of available market information.

The table below presents the amounts not recognised in the profit and loss account relating to the difference between the fair value of financial instruments held for trading at initial recognition (the transaction price) and the amounts determined at initial recognition using the valuation techniques (day 1 P&L).

<i>\$ in millions</i>	Nine Months Ended	Year Ended
	September 2016	December 2015
As of January 1	\$139	\$136
New transactions	60	93
Amounts recognised in the profit and loss account during the period	(47)	(90)
Ending balance	\$152	\$139

Fair Value of Financial Assets and Financial Liabilities Not Measured at Fair Value

As of September 2016 and December 2015, the company had \$127.13 billion and \$99.25 billion, respectively, of current financial assets and \$151.05 billion and \$145.13 billion, respectively, of current financial liabilities that are not measured at fair value. Given the short-term nature of these instruments, their carrying amounts in the balance sheet are a reasonable approximation of fair value.

As of September 2016 and December 2015, the company had \$16.05 billion and \$12.37 billion, respectively, of financial liabilities that are due after more than one year that are not measured at fair value which predominantly relate to long-term intercompany borrowings. The interest rates of these borrowings are variable in nature and approximate prevailing market interest rates for instruments with similar terms and characteristics. As such, their carrying amounts in the balance sheet are a reasonable approximation of fair value.

Notes to the Financial Statements (Unaudited)

Note 18.

Offsetting of Financial Assets and Financial Liabilities

The tables below present the company's financial assets and financial liabilities that are subject to enforceable netting agreements and offsetting. Gross amounts exclude the effects of both counterparty netting and collateral, and therefore are not representative of the company's economic exposure. Amounts are only offset in the balance sheet when the company currently has a legally enforceable right to set-off the recognised amounts and an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The tables below also present amounts not offset in the balance sheet in respect of counterparty netting (i.e., the netting of financial assets and financial liabilities for a given counterparty when a legal right of setoff exists under an enforceable netting agreement), and cash and security collateral received and posted under enforceable credit support agreements, that do not meet the criteria for offsetting under U.K. GAAP. Where the company has received or posted collateral under credit support agreements, but has not yet determined whether such agreements are enforceable, the related collateral has not been included in the amounts not offset in the balance sheet, in the tables below.

	As of September 2016						
	Gross amounts ^{1,2}	Amounts offset in the balance sheet	Net amount presented in the balance sheet	Amounts not offset in the balance sheet			
Counterparty netting				Cash collateral	Security collateral	Net amount	
<i>\$ in millions</i>							
Financial assets							
Cash instruments	\$ 16,836	\$ (12,683)	\$ 4,153	\$ (1,067)	\$ (268)	\$ (2,455)	\$ 363
Derivative instruments	813,118	(92,709)	720,409	(639,168)	(48,985)	(14,197)	18,059
Financial instruments owned	829,954	(105,392)	724,562	(640,235)	(49,253)	(16,652)	18,422
Collateralised agreements	225,520	(35,767)	189,753	(92,381)	-	(94,381)	2,991
Debtors	65,980	(4,680)	61,300	(563)	(42,005)	(8,873)	9,859
Financial assets subject to enforceable netting agreements	1,121,454	(145,839)	975,615	(733,179)	(91,258)	(119,906)	31,272
Financial assets not subject to enforceable netting agreements	96,337	-	96,337	-	-	-	96,337
Total financial assets	\$1,217,791	\$(145,839)	\$1,071,952	\$(733,179)	\$(91,258)	\$(119,906)	\$127,609
Financial liabilities							
Amounts falling due within one year							
Cash instruments	\$ 1,305	\$ (1,305)	\$ -	\$ -	\$ -	\$ -	\$ -
Derivative instruments	799,831	(92,237)	707,594	(639,915)	(41,115)	(13,259)	13,305
Financial instruments sold, but not yet purchased	801,136	(93,542)	707,594	(639,915)	(41,115)	(13,259)	13,305
Collateralised financings	181,577	(40,447)	141,130	(90,731)	-	(35,445)	14,954
Other creditors	74,826	(4,469)	70,357	(867)	(49,330)	(354)	19,806
Total	1,057,539	(138,458)	919,081	(731,513)	(90,445)	(49,058)	48,065
Amounts falling due after more than one year							
Collateralised financings	4,779	-	4,779	(1,650)	-	(3,122)	7
Other creditors	10,131	(7,381)	2,750	(16)	(813)	(250)	1,671
Total	14,910	(7,381)	7,529	(1,666)	(813)	(3,372)	1,678
Financial liabilities subject to enforceable netting agreements	1,072,449	(145,839)	926,610	(733,179)	(91,258)	(52,430)	49,743
Financial liabilities not subject to enforceable netting agreements	118,157	-	118,157	-	-	-	118,157
Total financial liabilities	\$1,190,606	\$(145,839)	\$1,044,767	\$(733,179)	\$(91,258)	\$(52,430)	\$167,900

- Derivative assets and derivative liabilities include amounts that are not subject to an enforceable netting agreement or are subject to a netting agreement that the company has not yet determined to be enforceable of \$5.81 billion and \$6.77 billion, respectively.
- Substantially all collateralised agreements and collateralised financings are subject to enforceable netting agreements.

Notes to the Financial Statements

(Unaudited)

As of December 2015

<i>\$ in millions</i>	Amounts not offset in the balance sheet						
	Gross amounts ^{1,2}	Amounts offset in the balance sheet	Net amount presented in the balance sheet	Counterparty netting	Cash collateral	Security collateral	Net amount
Financial assets							
Cash instruments	\$ 15,662	\$ (11,579)	\$ 4,083	\$ (21)	\$ (726)	\$ (1,993)	\$ 1,343
Derivative instruments	608,906	(59,789)	549,117	(474,498)	(42,162)	(11,095)	21,362
Financial instruments owned	624,568	(71,368)	553,200	(474,519)	(42,888)	(13,088)	22,705
Collateralised agreements	191,094	(27,391)	163,703	(48,219)	–	(112,475)	3,009
Debtors	55,187	(6,758)	48,429	(542)	(32,202)	(7,900)	7,785
Financial assets subject to enforceable netting agreements	870,849	(105,517)	765,332	(523,280)	(75,090)	(133,463)	33,499
Financial assets not subject to enforceable netting agreements	84,273	–	84,273	–	–	–	84,273
Total financial assets	\$955,122	\$(105,517)	\$849,605	\$(523,280)	\$(75,090)	\$(133,463)	\$117,772
Financial liabilities							
Amounts falling due within one year							
Cash instruments	\$ 1,164	\$ (1,164)	\$ –	\$ –	\$ –	\$ –	\$ –
Derivative instruments	589,450	(58,480)	530,970	(474,498)	(32,202)	(8,617)	15,653
Financial instruments sold, but not yet purchased	590,614	(59,644)	530,970	(474,498)	(32,202)	(8,617)	15,653
Collateralised financings	150,534	(34,149)	116,385	(48,130)	–	(52,066)	16,189
Other creditors	67,453	(5,027)	62,426	(21)	(42,888)	–	19,517
Total	808,601	(98,820)	709,781	(522,649)	(75,090)	(60,683)	51,359
Amounts falling due after more than one year							
Collateralised financings	3,502	–	3,502	(89)	–	(3,343)	70
Other creditors	8,694	(6,697)	1,997	(542)	–	–	1,455
Total	12,196	(6,697)	5,499	(631)	–	(3,343)	1,525
Financial liabilities subject to enforceable netting agreements	820,797	(105,517)	715,280	(523,280)	(75,090)	(64,026)	52,884
Financial liabilities not subject to enforceable netting agreements	108,495	–	108,495	–	–	–	108,495
Total financial liabilities	\$929,292	\$(105,517)	\$823,775	\$(523,280)	\$(75,090)	\$(64,026)	\$161,379

- Derivative assets and derivative liabilities include amounts that are not subject to an enforceable netting agreement or are subject to a netting agreement that the company has not yet determined to be enforceable of \$8.34 billion and \$7.49 billion, respectively.
- Substantially all collateralised agreements and collateralised financings are subject to enforceable netting agreements.